IFIC Investment Funds in Canada

Exam Preparation Kit

Investment Funds in Canada (IFIC)

Study Notes 2020

Section 1: Introduction to the Mutual Fund MarketPlace

Section Introduction

- Mutual Fund: investment vehicle that pools contributions from investors and invests these proceeds into a variety of securities including stocks, bonds and money market instruments

SECTION 1: The Role of the Mutual Fund Sales Representative

How has the Mutual Fund Industry Evolved?

- Some think mutual funds started in 1774 in Netherlands, others say mid 1800s in England
- 1890s: Fixed trusts: first investment funds available to general public, domestic and foreign government bonds and entirely unmanaged, all securities had same maturity date, rare today

- 1900s: Closed-end fund: corporations who's business is making investments, firm issues shares to investors and use proceeds to create investment portfolio
- 1920s: Open-ended mutual funds: modern day mutual fund. Unlike close ended funds, mutual funds are always available from the fund to meet the purchasing demands of investors without restriction. One other key difference is that you can buy and sell closed-end funds on a stock exchange, while mutual funds are only available for purchase through a fund company or financial institution
- Mutual funds in Canada: grew slowly until after Second World War. During 50s and 60s grew dramatically, 70s was difficult, 80s and 90s saw more growth. Interest rates rose steadily throughout 80s and people invested in GICs but in 90s rates fell and mutual funds became more popular

What is the Value in Licensing?

- Acquiring a license has value because: committed to professional development, achieved level of competence, understand being ethical, understand responsibility regulators play

Why Provide Excellent Customer Service?

- Client service: fully understanding client's needs, identifying right solution to satisfy needs
- Rewards for providing excellent client service: repeat business, tell friends about you,
  they buy other products and services
- Why client service is so critical: Mutual funds are subject to sales regulations and disclosure requirements and demands specialized client service approach, rapidly changing financial services environment requires you to understand characteristics and purpose of many products

Why is Understanding your Clients and Products Important?

- Legal responsibility: must ensure any investment you recommend or client order you accept is suitable for the client
- Ethical responsibility: must place client's needs before your own needs
- Professional responsibility: must provide the best client service possible
- Mutual funds sales representative owes a fiduciary duty to the client
- Fund facts document: no more than 4 pages in length and gives investors key info
- Prospectus: provides greater detail than fund facts document and is

much greater in length

Why are The Know Your Client Rule and Suitability Important?

- Suitability: ensuring all recommendations take into account client's unique situation,
  based on sales representative's understanding of products
- Know your client (KYC) rule: use due diligence to learn essential facts relevant to every
  client and every order. Client's financial status (income and net worth), family and other commitments like financial goals. If client refuses to provide info do not accept order
- Know Your Client: Financial goals and objectives, financial circumstances, Personal circumstances, Investment knowledge, Ability to tolerate risk
- Financial circumstances: amount of savings clients can commit to investing and level of risk they can assume. Size of investment portfolio, excess income from employment, investment over living expenses, stability of employment
- Personal circumstances: Lifestyle, clients with dependents usually big spenders, older clients tend to be savers

- Risk averse vs risk tolerant

What is the Role of a Mutual Fund Sales Representative?

- Role is to exclusively talk about mutual funds. If client wants to purchase stocks refer to
  someone who sells securities, if client wants advice on planning, refer to a financial planner

Mutual Fund Sales in Practice

SECTION 2: Overview of the Canadian Financial Marketplace

What is Investment Capital?

- Capital is wealth: material things like land and buildings and representational like money, stocks and bonds. In short supply and arguably world's most important commodity, scarce and in demand everywhere
- Capital savings can be used directly like investing in a home, government investing in roads etc.

or indirectly where purchase stocks and bonds and that company will directly invest the money somewhere

- Capital: mobile, sensitive to environment and scarce. Extremely selective and attempts to settle in locations where government is stable, economic activity not over regulated, investment climate hospitable and profitable investment opportunities exist
- Decision to where capital will flow: Political environment, Economic trends (GDP, inflation rate), Fiscal policy (taxes and government spending), monetary policy (sound mgmt. of growth of nation's money supply), Investment opportunities, Characteristics of Labour force
- Sources of Capital: Retail investors, Institutional investors (Pension/mutual fund company), foreign investors
- Users of Capital: Individual, Businesses, Governments
- Federal Government: 4 main instruments: T-Bills, Marketable bonds, Canada Savings Bonds, Canada Premium Bonds
- Provincial governments: may issue bonds to federal government, borrow funds from CPP assets, may issue debt domestically
- Municipal governments: Attempt to spread their cost over a period of years through issuance of instalment debentures

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What are the Financial Instruments?

- Financial Instruments: Debt instruments (Bonds, debentures, mortgages, treasury bills, commercial paper, fixed income securities), Equity Instruments, Investment Funds (open-end fund or a mutual fund), Derivatives (for sophisticated investors, options and forwards), Other Financial Instruments (Linked notes and ETFs)

What are the Financial Markets?

- Buyers and sellers do not directly exchange in financial markets, others do so on their behalf
- Primary market: new securities are sold by companies and government for first time. Stocks, bonds, initial public offering.
- Mutual funds sold in primary market, investors buy and sell mutual fund units directly from and to the fund itself
- Secondary market: buyers and sellers exchange securities already issued by company or government
- Auction market: buyer enters bids and seller enters offers for stock. Price stock is traded is highest buyer willing to pay and lowest seller willing to sell
- Liquid market: frequent sales, narrow price spread between bid and ask prices, small price fluctuations from sale to sale
- Canada's stock exchanges are auction markets. Canada has 6

exchanges: TSX, TSX Venture Exchange, Montreal Exchange (owned by TMX group), Canadian Securities Exchange, NASDAQ Canada and Aequitas Neo

- TSX: senior equities, some debt instruments convertible into listed equity, income trusts
  and ETFs
- TSX Venture Exchange: junior securities and few debenture issues
- NASDAQ – American expansion
- Montreal Exchange: all financial and equity futures and options
- Neo – newest exchange as of 2015
- Dealer markets: second major type of market on which securities trade. Consist of network of dealers who trade with each other usually over phone or computer. Unlike
  auction markets, where individual buyer and seller orders are entered, dealer market is negotiated market where only dealers' bid and ask quotations are entered by those dealers
- Almost all bonds and debentures sold through dealer markets, less visible than auction markets for equities, volume for dealer market significantly larger than equity market
- Dealer markets also referred to as Over the counter (OTC) or Unlisted markets

Who are the Different Financial Intermediaries?

- 2 broad categories: Deposit taking and Non Deposit taking institutions

- Deposit taking institutions: Banks and trust companies. Pool the deposits of thousands of savers and then invest those funds in different type of investments
- Non deposit taking institutions: Life insurance companies. Acquires capital by pooling premiums from policies it issues to individual and then investing those premiums in capital markets. In this way it provides sufficient funds to satisfy claims of policy holders
- Role of Investment Dealers: non deposit taking institution. 2 main functions: (help transfer capital from savers to users through underwriting and distribution of new securities in primary market, second investment dealers maintain secondary markets)
  - Other Intermediaries: Chartered Banks, Life insurance companies, Credit Unions and
  Caisses Populaires, Investment Funds

What is the Canadian Securities Regulatory Framework?

- Several pieces of legislation at the federal level but most legislation regarding trading
  and distribution of securities is a provincial matter
- Self regulatory Organizations (SROs): private industry organizations that have been

granted the privilege of regulating their own members by the provincial regulatory bodies. Mutual Fund Dealers Association (MFDA) and Investment Industry Regulatory Organization of Canada (IIROC)

- MFDA: distribution side of mutual fund industry. Does not regulate fund themselves that remains with securities commissions.
- IIROC: oversees all investment dealers and trading activity in Canada. All Canadian investment dealers must be members of IIROC

SECTION 3 Economic Principles

What is Economics?

Supply & Demand

Supply and demand is perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy. Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand.

The relationship between demand and supply underlie the forces behind the allocation of resources. In market economy theories, demand and supply theory will allocate resources in the most efficient way possible. How? Let us take a closer look at the law of demand and the law of supply.

A. The Law of Demand

The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded. The amount of a good that buyers purchase at a higher price is less because as the price of a good goes up, so does the opportunity cost of buying that good. As a result, people will naturally

avoid buying a product that will force them to forgo the consumption of something else they value more. The chart below shows that the curve is a downward slope.

B. The Law of Supply

Like the law of demand, the law of supply demonstrates the quantities that will be sold at a certain price. But unlike the law of demand, the supply relationship shows an upward slope. This means that the higher the price, the higher the quantity supplied. Producers supply more at a higher price because selling a higher quantity at a higher price increases revenue.

Economics: understanding the choices individuals make and how the sum of those choices affect our economy.

Market economy: all of the activities related to producing and consuming goods and services, as well as decisions by individuals, firms and governments determine the proper allocation of resources

Microeconomics

Microeconomics: Analyzes market behavior of individual consumers and firms, how prices are determined and how prices determine production, distribution and use of goods and services, e.g.:

- how minimum wage laws affect the supply of labour and company profit margins
    - how a tax on softwood lumber imports affects

the forestry industry (Tip: look for mention of specific industries, the word ‘company’)

Macroeconomics

Macroeconomics: focuses on the performance of the economy as a whole,, e.g.:

- why did total output shrink last quarter
- why have the number of jobs fallen
- will a decrease in interest rates stimulate economic growth?

(Tip: look for mention of high-level indicators or things that pertain to the nation as a whole)

The Decision Makers

- Consumers: maximize satisfaction/well-being within available resources
- Firms: maximize profits by selling goods
- Governments: spend money/regulatory/public works

The market: any arrangement that allows buyers and sellers to conduct business with one another

Demand and Supply

- Prices determined by demand and supply

- To principles to explain interaction:
  - The quantity demanded is the total amount consumers will buy at X price and X timeperiod
  - The quantity supplied is the total amount producers are willing to supply at X price and X timeperiod
- Market equilibrium: the price that matches what someone is willing to pay with price that someone is willing to supply it

Economic Growth Measurement

- Economic growth: an economy's ability to produce greater levels of output over time (expressed as % change in GDP)
- GDP: the market value of all final goods and services produced within the country in a given time period
  - final good: finished products that consumers will buy (not subcomponents)
  - Expenditure Approach: total spending on final goods and services in the economy
    - = personal consumption + investment + government spending on goods and services + net exports
  - Income Approach: total income earned by firms by producing those goods and services
    - = wages + rent + interest for capital goods + profits
- Nominal GDP: dollar value of all goods and services produced in a given year at prices that prevailed that year
- Real GDP: dollar value of all goods and services produced in a given year at prices that prevailed in some base year (tells us what would've happened if prices had not changed (no inflation))
- Differences between real and nominal GDP are the result of changes in prices

- GDP growth comes from:
    - population increase
    - increase in capital stock (number of workers, tools and training)
    - improvements in technology (substitution of capital for labour)
- If productivity growth exceeds increases in unit costs prices go down
    - from increase in capital improvements in technology
- policy of 2% to 3% growth annually can double the standard of living over 30 to 40 years
- Long-term trends in GDP growth can identify countries with higher expected growth rates
- Investment in productivity comes from savings
- sustained growth requires technological progress

Phases of the Business Cycle

- Phases of the Business Cycle: fluctuations in output and employment
    - not as predictable as the name suggests
    - Expansion
        - Stable Inflation
        - Adjusted Inventories to Meet Demand
        - Investing in New Capacity
        - Profits Rising
        - New Business Startups Outnumber Bankruptcies
        - Stock Market Is Strong
        - Job Creation Is Steady, unemployment steady or falling

- Peak
    - Demand starts outstripping capacity
    - Labour and product shortages = wage increases and inflation
    - Interest rates rise, bond prices fall
    - sales decline, unwanted inventories increase
    - Stock prices fall, activity declines
- Contraction
    - Economic activity (real GDP) declines
    - reduced production, postpone investment and hiring (due to declining profits)
    - Business failures outnumber startups
    - Falling employment erodes household income and confidence
    - consumers spend less, save more
- Trough
    - Interest rates fall (triggers bond rally)
    - Inflation falls
    - consumers start spending due to lower interest rates
- Recovery
    - Firms that reduced in the inventories must increase production to meet new demand
    - Typically too cautious to hire back significant number of workers
    - Firms not yet ready to make significant new investment
    - Unemployment remains high

Economic Indicators

- Economic Indicators: statistics or data series that are used to analyze business conditions and economic activity
- Leading Indicators: tend to peak or trough before the overall economy, e.g.:
  - Housing starts
  - manufacturers new orders
  - commodity prices
  - average hours worked per week
  - stock prices
  - money supply (available liquidity); impacts interest rates
- Coincident Indicators: change at approximately the same time as the overall economy, e.g.:
  - personal income
  - GDP
  - industrial production
  - retail sales
- Lagging Indicators: change after the economy, e.g.:
  - Unemployment
  - private sector plant & equipment spending
  - business loans and interest on borrowing
  - labour costs

- inflation rate

Recessions

- Recession: Popular definition is two consecutive quarters of declining real GDP
  - Canada measures it by the depth, duration and diffusion of decline in business activity, based on:
    - substantial depth of the decline
    - more than a couple of months
    - must be a feature of the whole economy
    - maybe behavior of employment and per

capita income Online Learning Activity:

Where are we in the Canadian Business Cycle?

Labour Market Indicators

- labour force: working age population who are employed or unemployed
- key indicators:
  - participation rate: share of working-age population that is in the labour market (mostly upward over last 50 years); people working or looking for work
  - unemployment rate: share of work force that is unemployed and actively looking for work
  - average in Canada for past 40 years: 7.7%
- Discouraged workers: have stopped looking for work/have not looked in the previous month. Not included as part of the labour force, so skews unemployment numbers

Types of Unemployment

- cyclical: tied to fluctuations in the business cycle; rises when the economy weakens
- frictional: normal labour turnover from people entering/leaving the workforce
- structural: when workers unable to find work because of a lack of necessary skills/do not live near where the jobs are or will not work at the wage offered
    - last longer than frictional because workers must retrain or relocate

Natural unemployment rate: the level through which unemployment will not fall without causing other negative economic effects (theory is that unemployment will never fall to zero) this is also the level of unemployment that is consistent with stable inflation

- If actual unemployment is above natural unemployment: excess workers, weaker bargaining power, lower wages

Interest Rate

- Influenced by:
    - demand and supply of capital; with increase in demand for borrowing interest rates go up
    - default risk: higher risk = higher rates
    - foreign interest rates and the exchange rate: if the net effect

of the two is higher elsewhere capital will flow elsewhere; can lead to higher rates

    - Central bank credibility: commitment to low inflation = low interest rates
    - Inflation: increased inflation = increased interest rates

- Affects economy by:
    - reduces possibility of profitable investments, therefore reduces investment
    - increases cost of borrowing, therefore discourages spending
    - higher rates (e.g. for mortgage) reduces income available to be spent on other items
- Expectations:
    - increased optimism can increase stock prices
    - Nominal interest rates: where effects of inflation have <u>not</u> been removed
    - real interest rate: nominal rate - expected inflation rate

Nature of Money

Money is any object that is accepted as payment for goods and services and can be used to settle debts

- has a function as a medium of exchange
- functions as a unit of account
- also is a store of value
- amount of money is measured in a variety of ways, some of which are known as monetary aggregates

Inflation

- Inflation: a sustained trend of rising prices (too much money chasing too few products)
    - rising price of a single product is not in itself inflation
- Measuring inflation:
    - Consumer Price Index: measurement of price of a shopping basket of 600 different goods and services
    - Calculating inflation using CPI:
        - measured against a base year
        - = CPI current - CPI previous (base)/ CPI previous (base) x 100
- Cost of inflation:
    - erodes standard of living for those on fixed income
    - increases standard of living for those who benefit from increased wages or investment strategy
    - draws resources into areas of scarcity
    - brings about rising interest rates (possibly recession)
- Causes of inflation:
    - Output gap: gap between potential GDP and real GDP
    - Negative output gap: actual output is below potential output (spare capacity): inflation will fall
    - Positive output gap: actual output is above potential output: increases wages (during expansion towards peak)
    - Demand pull inflation: excess demand leads to a rise in prices
    - Cost push inflation: increased costs of raw materials leads to increased prices

- Disinflation: decline in the rate at which prices rise
    - Phillips curve: when unemployment is low inflation tends to be high and vice versa
    - Sacrifice ratio: extent to which GDP must be reduced with increased unemployment to achieve 1% decrease in inflation rate
- Deflation: sustained fall in prices were annual change in CPI is negative year after year
    - eventually leads to a decline in profits
    - unemployment rises, growth slows and consumers

shift to saving Online Learning Activity:

Interest Rates and Inflation

International Economics and the Economy

- Balance of payments: statement of economic transactions with the rest of the world over X time
    - current account: (what we spend on things) exchanges of:
            - goods and services between Canadians and foreigners (biggest component)
            - earnings from investment income and
            - net transfers such as foreign aid
        - current-account outflows increased demand for foreign currency to make payments
        - current account deficit: if we buy more than we sell to foreigners as a country
        - influenced by the pace of demand in foreign and Canadian economies
    - Capital and financial account: (how we finance the spending)

financial flows between Canadians and foreigners related to cross-border investments (both ways), not including transfer payments

Exchange Rates

Exchange rates are influenced by:

- commodity prices: as demand increases, so too does demand for the Canadian dollar
- inflation differentials: currencies of countries with lower inflation rise = increased purchasing power
- interest rate differentials: higher domestic rates attracts capital and lifts the exchange rate
- current-account: with a current account deficit, funds are borrowed and demand for foreign currency increases = decrease in domestic exchange rate
- economic performance: stronger economy = more attractive to foreign investors
- public debts and deficits: larger public sector debts are less attractive to foreign investors
- political instability: less attractive to investors

Section 4: Getting to understand the customer

The Importance of Customer Communication and Planning

The Financial Planning Approach:

- Four objectives that must be taken into consideration, the plan: has to be achievable, has to accommodate changes in income level and lifestyle, ought not to be intimidating, and ought to offer for not just the necessities, but additionally, some rewards or luxuries.
- Planning comprises of analysis of the age, career, status of taxation, marital status, risk tolerance, legal concerns, wealth, estate consideration, as well as other related matters of the customer

The Steps involved in the Process of Financial Planning

1. Setting up the Client-Advisor Relationship: explain alternatives, the potential relative to conflict of interest, compose letter of engagement or related formal contract, list services and techniques of compensation
2. Gathering data and information: Advisors have to know the budgetary or personal financial status of the client, preferences and investment goals,

as well as risk tolerance. Advisors also have to comprehend the process the client makes use of to carry out crucial decisions, way in which client chooses to speak with the advisor, the objectives or needs as well as desires of the family of the clients, the psychological status and profile of the client, as well as comprehend what makes the client tick. Effective communication is kept with the client offering bad and good news. Net worth, personal data, and family budget, and also Record keeping

3. Analysis of the Data and Information: The personal situations of the client (risk tolerance and the knowledge of the level of investment), financial conditions (net worth and annual income), other financial goals (time horizon and objectives), age, get client's information as well as waiver of information, just in case the client declines from providing the information. Provide special agreement of authorization, which should be duly signed by the client, in case client tries to place orders by phone or fax. Discretionary income is the total amount ready to be saved. In case a client has only small cash, they should be directed to hugely liquid mutual funds such as money market funds if they need cash for any related emergencies, risk tolerance or investment knowledge.

4. Recommendation of Strategies to Accomplish Goals: The financial plan has to be simple, very easy for implementation and maintenance, timely, client has to understand every product and ensure there's an agreement, and also informed of the potential rewards and risks.

5. Implementation of Recommendations: This can be either long or short term, can imply the client to the advisor or lawyer.

6. Performing a Follow up or Periodic Review: At least, an annual review, but has to do mini-reviews, particularly if there's a change in personal conditions and probably has to do a fresh financial plan.

7. Risk tolerance has condition related component as well as psychological component. The condition related component will

unquestionably change after some time and the psychological component will possibly change, as well, as the mood of the client changes in relation to the investment option

What is the Life Cycle Hypothesis?

- The assumption that: older clients have the tendency of being more risk averse, while younger clients have the tendency to concentrate on shorter term, in relation to their financial goals, for key purchases such as home properties, older clients have the tendency of focusing better on estate building and retirement. However, this is not applicable to every individual
- Lifecycle hypothesis: this include the age of people, their goals, personal and financial conditions, level of investment knowledge, as well as the change in risk tolerance

The Five Stages

1. Early earning years (up to 30 years of age): the individuals begin to work, without any financial and family responsibilities, goals are often short

term such as vacations and cars, with the tendency of not buying any life insurance due to not needing it, could result into higher risk with the mutual funds due to investment based on long term, with equity funds of 80%, bond funds of about 10%, money market funds of 10%, short term investment goals, but could likewise have component on a long term.

2. Years of Family Commitment (between 25 and 35): kind of young and married with kids, absence of liquidity, car, or mortgage payments, life insurance turns into a prerequisite, they can hardly save based on short term goals as well as for long term, so much money go to saving for the children, with equity funds of 50%, bond funds of 20%, money market funds of about 30%, as well as shorter term of investment goals with medium component.

3. Years of Mature Earning (between 30 and 50): the shift from stage two to three is the point at which the client and life partner build up a relentless income and a solid asset base. This is a shift in relation to a higher weighting in relation to equity funds due to longer horizon of investment or the need for the reduction of taxes due to high income bracket and CG as well as the dividend yield relative to lower tax than the interest income, equity growth fund of 40%, equity funds of 30%, bond funds of 20%, money market funds of 10%, goals of investment based on medium term along with substantial long term component.

4. Getting Closer to Retirement (between 45 and 65): less family responsibilities as kids may have become independent or moved out, clients turn out to be more risk averse as they must depend on their savings during their years of retirements, may in any case need value supports, but not exactly in a Stage 3, investment goals have the tendency of shifting directly to medium term.

5. Retired: would have to keep up a good living standard which happens with yield on the growth equity funds, despite the fact that should

shift to less risky investments in light of low investment horizon, concentrate on wealth transfer and estate building, equity component begins to decline for the favor of less volatile safety investments and fixed income, investment objectives are considered as medium term in the sense that current portfolio has to keep on earning wage over medium term.

6. Investment knowledge is probably going to increase with age

7. Single most essential determinant of the asset allocation of the client at any phase is considered psychological willingness to tolerate and bear risk. A few retirees have high risk tolerance, while some young individuals have generally lower risk tolerance. There are exceptions to all patterns.

Second Level – Independence (House, Debt Elimination, Emergency Fund, RRSP), Third Level – Investment Conservative (Debentures, Fixed income securities such as bonds, Certain Mutual Funds, Preferred shares GICs), Fourth Level – Investment Moderate (Mutual Funds, Stocks) Fifth Level – Investment Aggressive (IPOS, Real Estate, Art, Precious metals, OTC Securities)

<u>Section 5: Behavioral Finance Behavior of Investors</u>

Investor Behavior

- Don't rely too much on the results of a test
- Behavioral finance: as human beings, investors are not necessarily

rational or logical creatures. They are subject to personal beliefs and biases that may lead to irrational or emotional choices and decisions

- January Effect: where stocks in general, and small stocks in particular, move abnormally higher during the month of January, that demonstrate that human behavior influences securities prices and markets
- Standard theories of finance and investing assumes investors are: risk averse, rational in decision making
- Theories from behavioral finance suggest investors are: risk averse or risk seeking depending on situation, can act irrationally thus creating market opportunities
- Standard finance states how investors should behave while behavioral finance shows how they actually behave
- Behavioral biases: systematic errors in financial judgment or imperfections in perception of economic reality. 2 types: Cognitive and emotional
- Cognitive bias: information processing or memory errors common to all humans. One of most common is anchoring bias where clients get anchored to price of a stock or level of the market and hold on to that price before being willing or able to make an investment decision. They do not result from emotional or intellectual predisposition but rather subconscious mental procedures for processing info. Ex would be to rely on shortcuts like best 12 month return when looking at pool of stocks, better info and advice can correct them
- Emotional bias: Emotions can result from impulse and will affect decisions. These are difficult to correct
- Cognitive Biases: Overconfidence (tend to overestimate both predictive abilities as well as precision of info given), Representativeness (client could be presented with investment that has some good qualities but automatically relates it to a good investment based on desire because of

these few elements), Cognitive Dissonance (when presented with info that contradicts previous beliefs, people will go to great lengths trying to convince themselves they didn't make a mistake), Availability (allows people to estimate a probability of an outcome based on how prevalent or familiar that outcome appears in their lives, people associate shark attacks as being more common than deaths from falling airplane parts but latter is true, people might think heavily advertise mutual fund company is better when it is not)

- Emotional Biases: Endowment (place more value on an asset they hold property rights to than an asset they do not hold property rights to), Loss Aversion (feel stronger impulse to avoid losses than to generate gains), Regret Aversion (avoid making decisions because they fear, in hindsight, that whatever they decide to do will result in a bad decision, holding on to loss positions for too long and selling when investors should be buying at low prices), Status Quo (when presented with variety of options want to keep things the same
- Gender and Behavioral Finance: women believe that random sequences with no automatic correlation display positive correlation when in fact they do not such as when a basketball player makes 10 straight shots he is more likely to make the next one, men are more overconfident and optimistic than women, women more likely to buy and hold, men one third more risk tolerant than women
- Men susceptible to: Overconfidence bias, loss aversion bias, availability bias, cognitive dissonance bias
    - Women susceptible to: Endowment bias, Status quo bias, Representativeness bias, Regret aversion bias

How do Representatives Apply Bias Diagnoses when Structuring Asset Allocations?

- Best practical allocation: investors may be better served by adjusting risk

and return levels depending upon their behavioral tendencies… sets forth 2 principles for constructing a best practical allocation: 1) Moderate biases in less wealthy clients; adapt to biases in wealthier ones 2) Moderate cognitive biases; adapt to emotional ones

- High Level of wealth and Cognitive Bias (Moderate and Adapt), High Level of Wealth and Emotional Bias (Adapt), Low Level of Wealth and Cognitive Bias (Moderate), Low Level of Wealth and Emotional Bias (Moderate and Adapt)

Section 6 - The Canadian Tax System

- Individuals use calendar year while organizations may choose any fiscal year not longer than 53 weeks
- 4 general forms of income: Employment (taxed on gross receipt basis), Capital/Property (stocks, bonds, mutual funds, dividends and interest), Company (taxed on net income basis), Capital gains and losses individuals return is grossed up to show what corporation would have earned before tax after which the citizen receives a tax credit which counters amount of tax paid by corporation.
- Interest income: required to report interest income on yearly accrual basis regardless of cash received or not.
- Example: Tax credit is 15.02% of 414 which is 62.18 of 414 which is 62.18.

If individual is taxed at 26%, tax payable on taxable amount of dividend is 414 X 26% so 107.64 and net tax payable is 107.64 – 62.18 = 45.46

- Foreign corporations' Dividend: usually taxed as regular income, withholding taxes are charged but can get foreign tax credits

- Acceptable deductible charges that are carrying: Interest paid on funds borrowed to acquire investment income, fees for certain investment guidance, fees paid for management/ admin/safe custody of investments, accounting fees paid for record of investment income, safety deposit box charges

- For low Income earners: It is recommended to get earn through dividends but for higher income earners, it is more beneficial to earn through CG employment/business activity and investments 2) Subtract all allowable deductions from total income to arrive at taxable income 3) Compute basic tax due on taxable income 4) Claim nonrefundable and refundable tax credits to compute net tax due

Types of Pension Plans in Canada

- There are 2 types of pension plans in Canada: Employer Sponsored plans and Government Pension plans.

- Asides Quebec, the residence of all provinces contributes to the CPP while Quebec residents contribute to QPP Residents of all states besides Quebec give to CPP.

- OAS: recently shifted age from 65 to 67. There was a clamor to pay back 15% of every dollar if income exceeds 70,954 where no contribution plan

- Defined benefit plans: Benefits predetermined and calculated with a formula including years of contributions and other variables and service, income level designed to match plan benefits that are predetermined.

- Defined contribution plan: Contributions to plans are predetermined. Retirement benefits will be determined by how contributions were invested
- Defined contribution you know in advance how much the pension will likely be at retirement. 3 types 1) Flat benefit plans 2) Career average plans 3) Final average plans
- Flat benefit plans: This is the most straightforward formula to calculate benefit, generally expressed on years of service X annual amount
- Career Average plans: pension calculated as % of worker's earnings over the course of career (while in plan). Workers may contribute a specific % of their wages to this kind of plan
- Final average plans: expresses pension on worker's length of service and average income. As an alternative to basing the income over the life of service, however final average plans, utilizes a fixed amount of time. This period includes best 5 consecutive years of earnings in last 10 years of employment, or an average of the best 3 consecutive years of income over the last 5 years of employment.

Tax Deferral Plans

- Registered Retirement Savings Plans: 2 kinds 1) Single vendor RRSPs 2) Self Directed RRSPs… no limits to number of plans an individual can possess
- Self vendor plans: Holders invest funds or contribute acceptable assets plan normally distributed to get a fee, such as securities, investors can make all investment decisions, full range of securities may be held including foreign investments
- Self-Directed Plans: Holders invest funds or contribute acceptable assets such as securities, plan usually administered for a fee, investors can

make all investment decisions, full range of securities can be held including foreign investments

- RRSPs can't be utilized as collateral for a loan

- RRSP Contributions: Lesser of: 18% of previous year's earned income or RRSP dollar limitation (23,820 in 2013)… subsequently deduct Pension Adjustment and add unused RRSP contribution room

- Contributions can be made up to 60 days after end of year

- Can contribute securities already owned to an RRSP but there will be a deemed disposition at time of contribution that'll lead to a CG/CL

- Contributions made to the tune of 2000 and above do not attract any fine. However, there is a monthly charge of 1%.

- Income for RRSP: Total employment income (minus union or professional dues), Net lease and self-employment income, Royalties, Some alimony or maintenance payments, Disability payments from CPP or QPP, Supplementary Employment Insurance Benefits (Not EI)

- Spousal RRSPs: You can use your personal contribution room to contribute to either your RRSP or your spouse's RRSP. Withdrawal from a spousal RRSP is taxable income to the spouse and not to the contributor.

- Lump sum transfers from RPPs may be contributed without affecting routine tax-deductible contribution limitations

- Termination of RRSPS: compulsory termination in calendar year plan holder reaches 71: can collect proceeds as lump sum that's fully taxable, use proceeds to buy fixed term annuity or life annuity, transfer profits to a RRIF, or a combination of the options.

- In a RRIF, just the yearly income received each year is taxed.

- RRIF: there's a minimum sum to be taken each year but no maximum. The maximum amount increases according to age.
- If a RRSP or RRIF holder does not have a spouse or beneficiaries, Tax is obtained at death.
- By splitting RRSPs, two $2000 pension tax credits are claimable.
- RRSP holder cannot take advantage of dividend tax credit on eligible shares part of an RRSP
- Locked in Retirement Accounts: similar to RRIF, but possess a minimal and maximum annual withdrawal limitation. Activated when employee switches jobs and RRSP shuts down etc.
- TFSA: same as RRSP which are viable investments and can buy GICs, stocks, bonds, mutual funds. Contribution room is TFSA dollar limit plus any withdrawals effected in preceding year and also with unused contribution room. Tax stands at 1% of surplus every month if contribution exceeds the allowed amount.
- Canada Education Savings Grant (CESG): Government matches 20% on first 2500 contributed to RESP and will give just a little further depending on family income.. Lifetime grant a beneficiary can receive is up to 7200 but they should be repaid if the kid does not go to post-secondary
- Pooled Registered Pension Plans: proposed by federal government, designed to address gap in employer pension plan coverage by providing Canadians with an accessible, large scale and low cost pension plan
- Defined Benefit: pension benefit is publicly known but contributions required aren't, all employee contributions to plan are tax deductible from employee's income
- Defined Contribution: contributions are known but greatest pension benefit is not

- RRSP: deduct prior year PA and current year to get the contribution room.

- MPP, DBP provide tax deductible contributions

Section 7: Understanding What Investment Products and Portfolios Mean

How to Trade the Different types of Investment Product
What are Fixed Income Securities?

- The most common kinds of fixed Income securities are government and corporate bonds, GICs, treasury bills, bankers' and commercial paper
- Leverage: If a corporation forecasts a larger return on cash invested in their venture than it would cost to borrow money, they can boost the in-flow of the company by sourcing out funds,
- Bonds can only be purchased in particular denominations, most typically

$1000 or $10,000 denominations. After being issued, they're sold and bought between investors in the secondary market. Can be traded at a premium (over

100) or discount (below 100)

- Government Bonds: Government bonds can have both short and long maturity period. There is an active secondary market for marketable government bonds on the over the counter market. Practically no risks involved.

- Treasury bills: Short term government obligations offered in denominations from $ 1000 to $1 million and traditionally appeal to some rich individual investors, and to big institutional investors like banks, insurance providers, and trust/loan businesses. It started appealing to smaller investors when denomination lowered to $1000

- T-Bills: Do not pay interest, they're sold at a discount and mature at 100. This income is taxable income and not a CG.

- Canada Savings Bonds: Features include; 3 year term, fixed interest rate payable, can redeem bond at any given time of the year and will probably be paid interest for every complete month which elapsed since date of issuance.

- CSB and CPB aren't transferrable and have no secondary market

- Provincial bonds (Installment Debenture/Serial Bond): part of the bond matures in each year during the term of the bond. Normally non-callable

- Canada Premium Bonds: in contrast to Canada Savings bonds, Canadian Premium Bonds can be purchased directly through most finance institutions

- Municipal Securities: Usually non-callable and part of the bond matures annually during the term of the bond.

- Secured bonds: corporations pledge security to bondholders in case

there is non-repayment

- Debentures: non-secured bonds

- Callable bonds: corporations: At a premium cost, corporations can call.

- GICs: redeemable or non-redeemable. Investors have freedom of choice on term and frequency of interest payments.

- Commercial paper: unsecured promissory note issued by a corporation or asset-backed security backed by a pool of underlying financial assets, dilemma periods range from less than 3 months to a year, commerce in multiples of

$1000, minute initial investment of 25,000, sold at a discount and matures at face value, issued by companies with large recognized monetary history

- Bankers Acceptance: Also known as commercial draft. As the name implies, it is a written instruction to make a payment drawn by a borrower for payment on a fixed date. Ensured at maturity by borrower's bank, sold in a discount and mature at face value, trade in multiples of $1000, minimum initial investment allowed is 25,000 and maturity of 30 to 90 days while some may take a year

- Once a bond starts to trade in the secondary market, traders are more concerned with yield to maturity than its cost. It takes into account not only the interest payable on the CG/CL but also a bond that it'll generate over its duration.

- Bond Pricing principles: Bond prices are inversely associated with interest rates, Prices of long term bonds tend to be more volatile than prices of short term coupon bonds. Low coupon bonds tend to be more volatile in price than high coupon bonds; special features attract special considerations.

- Bonds are traded at 100 per trade. At initial acquisition, it will trade in the secondary market at discount or premium

- Inverse relationship between bond prices and interest rates:

- Discount rate, interest rate, yield and yield to maturity are often used in the same context
- Yield should not be confused with coupon rate. If Yield is higher than coupon, trade at a discount. If yield equals coupon, trade at par. If Yield (interest rate) is lower than coupon, trade at premium.
- Impact of Maturity and coupon on price volatility: long term bonds are more volatile, as bond approaches its maturity it becomes less volatile, lower coupon bonds are more volatile than higher coupon bonds.
- Bond: Secured by physical assets

- Debenture: Debenture may be secured by something other than a physical asset that can be seized and sold in the event of default on payment.
- Current Yield: Annual Cash Flow/Current Market price, where Annual Cash flow is the annual coupon paid

• Calculating Yield to Maturity: This does not only reflects investor's return in form of coupon income, but includes any CG or CL. Solve with a financial calculator

• Approximate Yield to maturity calculation: (Interest income +/- Price change per compounding period)/ (Purchase price + Par value)/2

• Yield Curve: Ideally, the longer the term to maturity, the higher the interest rate which means that short term interest rates are usually lower than long term ones

Equity Securities

• Senior creditors (for example banks), bond and debenture holders and preferred shareholders all have previous claim's on company's assets in the event of insolvency. Common stockholders have a somewhat weak position on asset claims.

• Preferred shares: issued to raise capital for investment undertakings, preferred shares have likenesses to bonds and to shares that are common and because of this sometimes called hybrid securities, cash flow from dividend is fixed.

• Benefits of Common Share ownership: potential for capital appreciation, right to receive any common share dividends, voting privileges, favorable tax treatment in Canada on dividend income and CG, Marketability, right to receive copies of annual and quarterly reports, right to examine certain business files, right to question direction at stockholder meetings, limited liability

• Current value of Preferred share = Yearly dividend/annual yield or

Annual Yield = Dividend/Current value

- Special features of preferred shares: Cumulative preferred (divid not paid in one interval are accumulated and paid in next), Convertible favored (shares that can be changed into common shares), Participating favorite (shares that pay fixed dividend but additionally one more dividend in addition to common shares)

Derivative Securities

- Derivative securities: securities whose value is dependent upon the value of asset or another security

- Option contract: if derivative is an option to buy shares at a fixed price, then as those shares increase in value, the option contract should rise in value as well
- Futures contracts: may be based on commodities or monetary assets. Agrees to sell or to buy at some point in the future at settlement date
- Margin: in order to initiate futures contract, investor is needed to put up only a small fraction of futures contract's underlying value
- Leverage: fundamental risk and return feature of derivative. They provide exposure to the underlying asset for a small fraction of the value of the asset.
- Call option: gives the owner the option of buying shares at the

fixed exercise price before call's expiration date.

- Hedging: This is like buying an insurance plan for protection from sudden events.

New securities brought into the market

- Underwriting: Entails bringing new securities to market.
- Underwriter supplies 2 unique services: 1) She/he advises the issuing corporation in preparation of the prospectus (document providing you with an entire description of the firm and the securities to be offered) 2) Underwriter frequently arranges for the purchase of the new issue and bears the risk that some of the securities might remain unsold at the given price
- Prospectus is the single most significant source of information for prospective investors regarding the new issue.
- Material fact: If accurately said, would likely influence investors decision to purchase.
- Most corporate issuers must produce a new prospectus each time they make a fresh offer of securities to the public. Nonetheless, regular issuers of securities are permitted to issue a simplified prospectus sometimes known as Shelf Registration
- Most stock transactions happen in Standard Trading Units, in which a standard trading unit is usually 100 shares.
- Margin Account: investors may buy securities using money borrowed from a stockbroker profits are made. Investor then waits in hope of buying it back later at a diminished cost, and sells security first

- Long places: investor purchases security with hopes of selling after at a higher cost

- Current yield: annual coupon/current value

- Perpetual preferred shares have greater interest rate risk than coupon bonds simply because they have no set duration to maturity

- Participating preferred shares: receive a dividend ahead of the common investors. It truly is broken up on a per share basis between common and preferred holders if funds continue to be left over after dividend paid to common investors

- Call option: option to buy shares in a fixed price prior to call’s expiration

- Put: option to sell rather than to buy

- Margin: This isn't a good strategy for risk averse investors as there's lots of leverage involved them in the market and anticipate a fall in price. The difference is the profit.

Section 8: Building Investment Portfolios What is Risk and Return

Equity investments are uncertain for short term investments but provide a decent choice, when investing for long term.

The Impacts of Economic Conditions in Comparing Returns

- Going from threat that is lowest to maximum threat: T-Bills, Bonds, Equities

- Inflation is less than 3% over last 20 years

- Real rate of return: Nominal rate – inflation

- Purchasing power: ability to buy services and goods. Purchasing power is maintained when your dollar grows as inflation is today, so a dollar in an earlier year can buy the same thing to you…crucial that you look at after tax returns

Calculate Return

- Return% = Cash Flow (Ending Value – Start Worth)/Starting Worth

- One of most widely used techniques to compare returns on 2 investments over many holding period is to figure out the average or mean of the holding period returns
- Arithmetic mean yield versus Geometric mean yield

- Geometric return: <(1+R1) X (1 + R2) X (1 + Rt)^1/t – 1
- Example: 3 period with 2 distinct yields: 49.36%, 15.67%, -7.17%... Arithmetic mean return is (49.36+15.67-7.17)/3….Geometric mean return is (1.4936 X 1.1567 X 0.9283)^1/3 – 1
- Arithmetic mean will always be greater than geometric mean unless the yields are precisely the same, in which case both yields will be equal.
- Geometric mean is the best measure of historic performance of a security, as it quantifies the specific change in riches from the investment.

return on a particular security and W is the weighting of the security in the portfolio

- Rate of return has 2 components: Cash Flow returns and price change

How to Measure Risk

- Variance: measures the extent to which the possible realized yields differ from expected return or the mean. The greater the variance, the riskier security
- Standard deviation: square root of the variance

- Positive outcome = Average Return + Standard deviation…Negative outcome = Average return – Standard deviation
- Beta: Measures the degree to which individual equity securities or a portfolio of equities tend to move up and down with the market. Market has

a beta of 1 and a high stock beta means more risk because varies more with an increase in the market rates. Also, defined as the approximate % change in the price or value of a bond. The higher the duration of a bond, the more it will react to changes in interest rates. So if interest rates rise by 1% and the duration of the bond is 10, then the bond price will fall by 10%

- Low Risk to High Risk: T-Bills, Bonds, Debentures, Preferred shares, Common shares, Derivatives

What's Portfolio Evaluation?

- The higher the diversification, the lower the portfolio risk

- Combining 2 different securities might not diversify the portfolio if they are similar in nature.

- When 2 stocks have a perfect negative correlation, there is no risk for the portfolio and no variability in total returns and reaches maximum diversification added. Added risk reduction is minimal when there are 32 equities in a portfolio

- In reality, most mutual funds have betas between 0.75 and 1.4

- Portfolio alpha: this additional motion is due to the alpha which can be from the advisor's skill in picking securities which will outperform, when portfolios move more than their predicted beta. The surplus yield earned on the portfolio.

- Securities choice, asset mix, market timing decisions,

opportunity influences by: Investment yields.

- Correlation: +1 is perfect positive correlation, 0 is no correlation and -1 is perfect negative correlation

- Perfect positive correlation: Stock A avg return is 10% and the SD is 23%, Stock B avg return is 10% and SD is 23%, Portfolio avg return is 10% and SD is 23%

- Perfect negative correlation: Stock A avg return is 10% and SD is 23%, Stock B avg return is 10% and SD is 23%, Portfolio avg return is 10% and SD is 0%

- Stock A avg yield is 10% and SD is 23%, Stock B avg return is 10% and SD is 23%, Portfolio avg return is 10% and SD is 0%

Managing Portfolios

- Difference between management styles is on belief if market is efficient. Price of securities reflects all existing information, if markets are efficient. If markets are not efficient, securities will not reveal all information and there could be chance for short term gains.

- A completely efficient market means there would not be a need for active portfolio management.

- Passive portfolio management: portfolio manager will not try to make excess returns.

- Strategic asset allocation: Base policy mix. Long term combination that'll be adhered to by observation and rebalancing. Ex: 60% equities and 40% bonds. After determining the strategic asset allocation, you only have to ascertain whether the client can bear the risk

The Methods of Analysis

Different industries and companies. Involves studying capital market conditions and outlook for national economy and for economies of countries with which Canada trades to shed light on securities' prices. It means studying everything other than the trading on the securities markets. Most important thing to look at is the profitability of the issuer and look at things like Debt-equity ratio, profit margins, dividend payout, sale penetration etc.

- Technical analysis: study of historical stock prices and stock market behavior to identify recurring patterns in data. Studies price movements, trading volumes, stock price patterns, mass investor psychology, and influence of program trading

- Security analysis: evaluation of risk and return characteristics of securities. 2 basic types are: fundamental analysis and technical analysis examined, then a specific industry, then a company of interest. Analyst makes use of all available data and, at firm level, analyzes company's financial statements

- Technical analysis: not at all concerned about true value. Based on idea that prices change as a result of changes in supply and demand of securities and these changes are believed to reflect investor psychology.

- Maintaining purchasing power is being able to buy goods today that you could have bought in a prior year so basically keeping up with inflation while increasing wealth is earning a rate of return higher than keeping up with inflation

- With a fully diversified portfolio, you should earn a return consistent with the portfolio's market risk, its beta

Section 9: Understanding Financial Statements

Financial Statements

- IFRS is based on principle, with a focus on providing detailed disclosure

- There are 4 essential financial statements: Statement of Financial Position, Statement of Comprehensive income, Statement of Changes in Equity, Statement of Cash Flow

Statement of Financial Position

- Shows a company’s financial position at a specific date, in annual reports it is the last day of the fiscal year.
- 3 main types of Current assets: Cash, inventories, trade receivables

- Current liabilities are also defined as having the one year dividing line. Three main types: Trade payables, Notes payable (loans which must be paid off within one year), Accrued charges (wages earned by employees but not yet paid or taxes payable)
- Shareholder's Equity has both Common Shares and Retained Earnings.

- Assets = Equity + Liabilities

- Assets are current or fixed. If expected to be converted to cash within one year, it is considered current
- Presents a snapshot of a company's operations at a specific date

Statement of Comprehensive Income

- Revenues and expenses over a specific period, usually quarterly or annual FS so 3 month or 1 year
- Gross profit: Revenue – Cost of Sales
- From Gross profit, subtract all expenses (General and Admin, Selling expense, depreciation, interest expense, taxes) and you will get profit

Statement of Changed in Equity

- Profit or loss in a company's most recent year is determined in the Statement of Comprehensive Income and then transferred to Statement of Changes in Equity
- This statement is the bridge between the BS and the IS because it shows the annual earnings in the IS and the RE that appear in the BS
- Retained Earnings (beginning) + Profit for the period – Dividends paid on common shares = Retained Earnings (end)
- Auditor's report conventionally has 4 sections: 1) Intro section identifies FS covered by auditor report 2) Outlines FS responsibilities of management 3) Outlines auditor responsibilities and states how audit was conducted (in accordance with international auditing standards and that auditor has made judgments) 4) Gives auditor's opinion on FS of company
- Purpose of RE is to record the profits kept in the business and it also provides a direct link between the statement of comprehensive income and the statement of financial position
- Auditor's Report: required, only exception is for privately held corporations where all shareholders have agreed that an audit is not necessary. Auditor is appointed at company's annual meeting by resolution of shareholders and may be dismissed by them.

- The method most commonly used to evaluate financial statements is called ratio analysis
- 4 main types of ratios commonly used in financial analysis are: 1) Liquidity ratios (used to judge company's ability to meet its short-term commitments like working capital ratio, between current assets and liabilities) 2) Risk analysis ratios (shows how well the company can deal with debt obligations and look at debt/equity ratio for example) 3) Operating performance ratios (illustrate how well management is making use of the company's resources, ex return on common equity) 4) Value ratios (shows investor what company's shares are worth or return on them, measures the way the stock market values a company by relating the market price of its shares to dividends and earnings ex: PE ratio)
- One ratio does not tell very much, should be taken into context
- The significance of any ratio is not the same for all companies; they should be compared with similar companies or within a similar industry
- Liquidity Ratios: Current Ratio = Current Assets/Current Liabilities. Current ratio of 2 is generally considered good but should also look at composition of Current assets (Cash is more liquid than inventories). Once a current ratio exceeds 5 a company may have too many current assets on hand… Quick ratio: (Current Assets – Inventories)/Current Liabilities, if better than 1 generally considered good but if they have a high inventory turnover then that will be quickly converted to cash
- Financial leverage (Risk Analysis Ratios): Debt/Equity ratio = Total Debt Outstanding (Short and Long term debt)/Equity, creditors would normally not lend to companies that show a ratio of more than 0.5..Cash flow from

operations/Total Debt outstanding (Short and Long term debt), shows company ability to repay funds it borrowed.. Interest coverage ratio: reveals ability to pay interest charges on its debt and indicates how well these charges are covered, Earnings before interest and taxes/Total interest charges

- Operating Performance ratios: Gross profit margin ratio = (Revenue – Cost of Sales)/Revenue- Net Profit margin = Profit/Revenue- Return on Common equity = Profit/Equity…Inventory Turnover Ratio = measures the number of times a company's inventory is turned over in a year, but can also be expressed as a number of days required to achieve turnover, high turnover ratio is good

because requires a smaller investment in inventory than one producing the same sales with a low turnover.. Cost of Sales/Inventory, if it equals 10 then turned over inventory ten times in year, if ratio is too high company may have problems with inventory shortage resulting in lost sales, if too low could be because inventory contains large portion of unsalable goods/holding excess inventory/value of inventory has been overstated

- Value Ratios: sometimes called market ratios, measure the way the stock market rates a company by comparing market price to info in FS.. Earnings per Common share ratio = Profit/Number of Common shares outstanding.. Dividend yield = Annual dividend per share/Current market price…P/E Ratio

= Current price of common/EPS (the factors that affect price are both

tangible and intangible), PE ratios should be compared within companies in the same industry

- Trend Analysis: analysts identify trends by selecting a base date or period, treating the figure or ratio for that period as 100, and then dividing it into the comparable ratios for subsequent periods

- External Comparisons: ensure ratios being compared are made up the same way from company to company. Ensure assumptions made are consistent; compare company to both current averages of industry as well as historical standard.

- The PE Ratio is the most widely used financial ratio

- If Trend value in 5th year is 150, EPS in 5th year is 1.96, EPS in the 1st year is (1.96/150) X 100 = 1.31

<u>Section 10: The Modern Mutual Fund - Understanding Mutual Funds and Managed Products</u>

Mutual Funds

- Mutual fund shares/units are redeemable on demand at fund's current price or net asset value per share (NAVPS) or net asset value per unit (NAVPU) which depends on market value of portfolio at that time
- Fund's prime investment targets are revealed in fund's prospectus and cover degree of security or risk acceptable whether CG or income is primary goal

- Advantages of Mutual Funds: Low Cost professional management, Diversification, Variety of forms of funds and transferability, variety of purchase and redemption strategies, liquidity, ease of estate planning, margin qualifications and loan collateral, various special options.
- Disadvantages of Mutual Funds: Prices, Unsuitable for crisis reserve or short term investment. Market conditions are not controllable by fund manager, Tax complications
- Mutual fund might be structured as either a trust or a corporation

- Investment fund: incorporated company or trust established for the purpose of managing the fund's investments for people who invest in the company or the trust.
- Mutual fund trusts: The most common structure in Canada is open ending trust. Structure allows a fund taxation to be avoided because all income is passed on to the unit holder.
- The declaration of trust, trust deed (or similar document) establishing the mutual fund trust sets out the aims and policies
- Mutual fund corporations: can also be set up as national or provincial corporations, provided they satisfy certain requirements. Eligible for a special tax treatment if corporation's holdings consist mainly of a diversified portfolio of securities. These corporations can then give dividends to shareholders
- Trust structure is more common for mutual funds
- Trust: investors receive units, tax avoided at trust level and is flowed through to unit holders, all interest/dividend/CG net of fees and expenses must be distributed annually to unit holders
- Corporation: investors receive specific category of shares, eligible for certain tax treatment whenever they meet specific conditions set out in the Income Tax Act: must consist largely of diversified portfolio of securities and

corporation income should be derived principally from investment assets, company attains zero tax standing when they declare dividend during year equal to interest/dividend/actualized gains realized on fund assets

How Are Mutual Funds Formed?

- Directors and Trustees: The Board of trustee of mutual fund trust and Directors of Mutual Fund Corporation bear the ultimate duty of funds activities. Usually, board of trustee or directors will hire others to perform obligations to fulfill these aims.
- Fund Manager: ensures daily supervision. Most often it hires a company that specializes in providing such services. Often a fund manager will hire one or more portfolio managers to manage the fund's investment portfolio under the fund manager's supervision. Fund manager is responsible for portfolio manager's actions. Fund manager's ability to properly judge the amount of cash needed, and still have fund assets as fully and productively invested as possible, has a direct bearing on the success of the fund. Other responsibilities of a fund manager or which they can outsource are calculation of fund's net asset value, preparation of fund's facts document, simplified prospectus, annual information form and other required reports, income tax reporting, shareholder or unit holder record-keeping and reporting, providing instructions to the custodian. Fund manager is paid a management fee, calculated as a % of net asset value of fund being managed.
- Fund manager can retain 3rd parties to provide services but is still ultimately responsible for actions of the 3rd parties
- Independent Review Committee: this is needed under National

Instrument 81-107. Required to either approve or consider conflicts of interest that are identified by manager of fund.

- The Custodian: when a mutual fund is established, another organization, usually a trust company, is appointed as the fund's custodian. Custodian receives and holds the fund's money, distributes fund's money to settle the fund's expenses and obtained from all sources. Occasionally the custodian also serves as a transfer agent and the fund's registrar, keeping records of who owns the fund's units/shares.

- To keep tabs on task, almost all mutual funds use a book established system for settling account transactions, purchases and redemptions of fund

units and shares are recorded in client's account kept by registrar and transfer agent.

- Mutual Fund Distribution: distributed via a number of channels by dealing representatives used by mutual fund dealers, investment dealers and, to lesser extent, exempt marketplace dealers.

How are Mutual Funds Controlled?

- Each province and territory has its own securities act and regulator

- Securities regulations related to mutual funds are based upon 3 broad

principles: disclosure personal trust and regulation. 5 principal worth: 1) Mutual fund representatives use proper care and exercise professional judgment 2) Mutual fund reps should run with trustworthiness and ethics, and act in reliable and reasonable way 3) Mutual fund reps should act and support others to act in a professional manner that'll reflect positively on individual registrant/business/profession and keep and boost their professional knowledge

4) Mutual fund reps should act In accordance with securities act of the state and must discover requirements of Self- Regulatory Organizations 5) Mutual fund reps must hold client information in strictest confidence

- Self-Regulatory Organizations (SROs): investment firms members of one or even more Canadian SROs are subject to rules and regulations of these SROs along with the province regulations.

- Mutual Fund Dealers Association (MFDA): mutual fund business's SRO for distribution side of mutual fund industry. It does not regulate funds themselves, that obligation remains with provincial securities commission, but MFDA does control how funds are sold. MFDA not responsible for controlling activities of mutual fund dealers who are members of another SRO

- National Instrument 81-101 (NI81-101): deals with mutual fund prospectus disclosure

- National Instrument 81-102 (NI81-102) and a companion policy contain requirements and guidelines for the distribution and advertising of mutual funds.

- Important that the mutual fund rep deals only in those funds registered in their own jurisdiction

- Documents included as part of disclosure requirements are: Fund Facts, Simplified Prospectus, Annual Information Form, Annual audited statements or interim unaudited financial statements, other info required by the province or territory
- Fund Facts Document: document designed to give investors key info about a mutual fund, in an easily understood format and described in plain language. Length limited to 2 double sided pages and provides timely info, supposed to follow universal format so can be compared within the industry. This is because before investors complained things were too complicated
- Disclosure components of Fund facts: 1) Information about the fund(Intro, Quick Facts, Investment of the fund, Risks, Past performance, Suitability,

Impact of income taxes on investor returns) 2) Costs, Rights and Other Info (Cost of Buying/owning/selling the fund, Statement of rights, More info about the fund)

- Simplified prospectus: must be filed with the securities commission annually, but need not be updated unless there is a change in the affairs of the mutual fund. Consists of 2 sections. Part A provides intro info about mutual fund, general info about mutual funds and info applicable to mutual funds managed by mutual fund organization. Part B contains specific info about mutual fund
- As part of simplified prospectus system, a fund must provide its investors with financial statements on request
- Annual information form: available to investors on request. Much is similar to that provided in simplified prospectus but in addition it also

contains: Significant holdings in other issuers, tax status of issuer, directors/officers/trustees

of fund and their indebtedness, associated persons/interest of management/principal holders of securities, particulars of any material contracts entered by issue.

- There are 3 differences between corporation and a mutual fund trust: trust issues units while corp issues shares, board of directors, corp lacks flow through status of taxes that trust enjoys

- National Instrument 81-101 has the type and content of the mutual fund prospectus that is simplified. National Instrument 81-102 specifies which transactions and investments a mutual fund is let to do and that are confined.

- List of changes to a mutual fund must be submitted to security holders for acceptance: basis of calculation of a fee or expense charged to the mutual fund in ways that may lead to a rise in costs to the fund, change in fund manager, change in fund's essential investment goals, and decrease in frequency of computing NAVPU or NAVPS

- Also collects money received and arranges through component, portfolio purchases and dividend payments for cash distributions /share redemptions upon request

- Role of Custodian: holds mutual fund assets for safekeeping so securities cannot be used by any entity except mutual fund to which those securities belong which protects security holders. Also collects money received and arranges for cash distributions through dividend payments, portfolio purchases and unit/share redemptions

- These are temporary, highly liquid fixed income investments of varying maturities. It will 364 days or less to easily convert into cash
- Usually, invest in: Government of Canada T-bills, T-bills of other provinces, short-term government securities, high-quality corporate securities such as commercial paper and bankers' acceptances
- Low quantity of unpredictability and low default risk market securities.

- They make use of 2 different forms of yield computations: Current yield is calculated as most recent 7 day yield on fund, adjusted to annual rate…. 7- day yield is calculated as Ending Net Asset Value/Initial Net Asset Value -1

2) Effective Yield: <(1 + 7-day yield)^365/7 – 1>

- Average term to maturity of a money market fund must be within 90 days
- National Instrument 81-102 enables the option of reporting either Current or Effective yield, but both is provided to avoid confusion. Effective yield is always higher than Current yield.
- Market review: fund manager clarifies why and what happened to rates, and hence the performance of the fund. Additionally, provides a forecast over the next few months
- Current yield computation factors only yield of the most recent 7 day period and ignore if money is paid out. It ignores that compounding returns

will take place if cash is paid out.

- Effective yield factors only yield of the most recent 7 days will stay constant for 1 year into the future and yields are re-invested, so weekly compounding of returns is assumed

Mortgage Mutual Funds

- Conventional mortgages are when you make at least 20% down payment while non-conventional mortgages are when the down payment is less than 20%, and these require insurance. Insurance increases of the mortgage by as much as 300 basis points (3%)
- Amortization period can be 25 years and sometimes longer. Terms can be as long as 10 years and as short as 6 months.
- Invest in high-quality residential mortgages, small parts of the portfolio can be invested in cash and bonds and mortgage-backed securities. They are in the fixed income category along with bond and preferred dividend funds and earn income in the form of interest (for mortgage and bond funds) and dividend (preferred dividend funds)

- Almost all mortgage funds carry a lower risk. A typical mortgage fund may hold 10,000 to 15,000 individual mortgages

- Mortgage funds can invest in both residential and commercial/industrial mortgages. Commercial/industrial mortgages have higher principal amounts with longer durations.
- From the standpoint of both default risk and interest rate risk, mortgage funds are riskier than money market funds but less risky than bond funds
- Open mortgages usually have a higher interest cost than closed mortgages because of the repayment feature.
- Interest rate sensitivity is lower for mortgage funds than for bond funds for two reasons: 1) Mortgage rates change much less frequently than interest rates on bonds. The decision to change mortgage rates rests with banks and other mortgage lenders while interest rates on bonds change when investors bid up or down the price of bonds 2) Mortgages by nature have less interest rate risk than bonds.

Bond and Other Fixed-Income Funds

- Invest in most types of bonds. They are more speculative than mortgage funds and not as risky as balanced funds.
- Investment aim of fixed income funds is to bring in current income while preserving capital. Principal fixed income mutual funds are bond funds and mortgage funds. Short-term bond fund is cross between money

market fund and bond fund

- As interest rates increases, the value of a fixed income security drops, as interest rates move up and vice versa. Also, as the term to maturity increases, they are going to be more sensitive to interest levels.

- Duration: weighted maturity also expressed in years. The longer the duration, the more sensitive to interest rate changes. If fund managers believe interest rates are going to fall, they are going to increase the duration of the bond portfolio by replacing short-term with longer term bonds. They will shorten

the duration by replacing longer term bonds with shorter term bonds, should they believe interest rates will rise.

- Short Term bond fund: comprises of partly money market fund and partly bond fund. The goal is to preserve capital and generate better current income than is likely from a money market fund

- Preferred dividend funds: The aim is to earn current dividend income while also sustaining capital target.

- Duration is not the same as duration to maturity. However, they may be associated

- Typical Canadian Bond Fund: 50% have maturities less than FIVE years, 30 have maturities of 5 to 10 years, 17% have maturities more than ten years. Sector breakdown: 59% invested in Government of Canada bonds, 10% invested in provincial bonds, 25% in corporate bonds, 4% in money market securities, and 3% in cash at least one year and if interest rates are not too volatile.

- Duration provides a direct indication of how explosive a bond portfolio is going to be if interest rates change. It takes some factors into account including the term to maturity of bonds into the portfolio, coupons that bonds pay, and current level of interest rates. The difference between duration and term to maturity is that duration gives a clear cut indication of interest rate risk, while term to maturity is good but not as clear cut. The one

with the higher duration signals a greater interest rate risk when comparing 2 portfolios' durations.

Although on the flip side, a greater interest rate risk is generally indicated by the portfolio together with the longer duration to maturity.

- The worth of mortgage mutual funds goes up when mortgage rates fall and vice versa.

Section 12: Riskier Mutual Funds Products

- What are Balanced Mutual Funds?

It is somewhat hybrid in nature because it is part fixed income fund and part equity fund. The goal is to earn some amount of both current income and CG while at same time preserving capital

- Most try to position the market and divert into bonds or stocks accordingly while always having a mix of the two securities
- Target-date funds: Introduced in 2005 and had two features that separate them from other mutual funds: a glide path and a maturity date. Glide path refers to changes in fund's asset allocation mix over time which allows the fund to effect a growth strategy by holding riskier assets in early years of fund's life and as the target date approaches, slowly reduces the risk of the fund.
- The returns usually fall somewhere in between bond fund and equity fund returns

Equity Mutual Funds

- Invest in common and preferred shares. They are the riskiest of the 3 basic mutual fund types – money market, fixed income, equity funds.
- 3 different types: standard equity funds, equity growth funds, and equity index funds
- Market capitalization: Number of shares outstanding X Current Market share price
- Mutual funds are allowed to use derivative securities that obtain their value from the value of underlying securities. Speculative positions cannot have a holding of greater than 10% of the portfolio.
- Standard equity fund: seeks to earn some combination of capital gains and dividend from investment in Canadian common stocks
- Equity Growth funds: investment objective is CG; some dividend income may be earned. They seek out smaller firms who typically don't pay dividends. It is volatile. They can have a conservative or aggressive class
- The difference between a hedger and a speculator is a hedger uses derivatives as a kind of insurance policy against the drop in the value of the portfolio while a speculator is taking a bet on the market's future movement.

Most mutual funds do not allow managers to take speculative positions in derivatives, but they do permit them to hedge the value of the portfolio by using them.

- There are 2 reasons for holding cash or cash equivalents: 1) Relates to transactions. Fund managers prefer to have some cash reserved so they can purchase securities 2) Mounting a defensive position and do not want to risk all assets. With an improved market condition, fund managers will likely decrease their cash holdings by purchasing equity.

- Equity index fund: The aim is to replicate the movements of a market index. They have lower management fees and for proponents of market efficiency.

Specialty Mutual Funds

- These are funds that limit investment objectives. The reason is to concentrate on some securities or industries. Example: precious metals funds and natural resource funds
- Fund wrap: an initiative that provides a series of portfolios with multiple mutual funds to reflect pre-selected asset allocation models. It shares similarities with mutual funds. A fund of funds exists as a legal entity, in addition to the legal existence of the underlying mutual funds.
- Lack of diversification problems

Global Mutual Funds

- Investors take part for two reasons: 1) Different countries are at different

stages of an economic cycle 2) They provide a hedge support against a drop in the relative value of the Canadian dollar

- It holds assets from several countries

- Global mutual fund investors are susceptible to at least two types of risks:

1) Market risk of country or countries invested in. 2) Foreign exchange risk because value of Canadian dollar can fluctuate relatively

- They earn two types of return: CG and dividends.

- Portfolio managers can execute hedging options to remove foreign exchange risk by getting involved in currency forward contracts.

- Accounting practices and conventions differ from country to country. Additionally, some stock markets are not as liquid and efficient as those in developed countries.

- Index: Low/Moderate/High risk, Exposed to Interest rate risk/Default risk/Market risk/Foreign exchange risk

- Balanced: Moderate Risk, Exposed to Interest rate risk/Default risk/Market risk/Foreign exchange risk

- Mortgage: Low Risk, Exposed to Interest rate risk/Default risk/

- Money Market: Low Risk, Exposed to Interest rate risk/Foreign exchange risk

- Equity: Moderate/High risk, Exposed to Default risk/Market risk/Foreign exchange risk

Risk/Foreign exchange risk

- Specialty: High Risk, Exposed to Interest rate risk/Default risk/Market risk/Foreign exchange risk
- Hedging does not necessarily have an adverse or a positive effect. It depends on the objectives of the investor.

Section 13: Alternative Managed Products

Hedge Funds

Flexibility in applying a range of investment strategies. Hedge fund managers are not limited by rules that apply to mutual funds and can invest in almost any market situation.

- Hedge funds share some similarities with mutual funds

- Investing in Hedge Funds: can be divided into a) funds targeted towards high value and institutional investors and b) funds and other hedge

fund related products targeted toward the broader individual investor or retail market

- For the high value or institutional part, it is usually structured through limited partnerships or trusts, issued through private placement. They issue an offering memorandum instead of a prospectus. Only accredited or critically acclaimed Investors.

- To be considered accredited in any province, alone or with a spouse, net financial assets should be 1 million or have had NI before taxes exceeding 200,000 or (300,000 with spouse) in each of the 2 most recent years and possibility of earning a similar amount.

- Hedge fund strategies: 1) Event driven strategies: aim to profit from certain events such as mergers, acquisitions, and stock buybacks. Medium exposure to market direction. 2) Relative value strategies: attempt to profit by exploiting inefficiencies or differences in pricing of related stocks/bonds/derivatives. Low or no exposure to market direction and return based on manager skill. 3) Directional strategies: stake on predicted movements in market prices of equities, debt securities, foreign currencies and commodities.

- Cost of Hedge funds: Incentive fees usually calculated after deduction of management fees and expenses. This is not done on the gross return earned by the manager. High water mark ensures that fund manager is paid an incentive fee only on new profits (if fund increases from $20/unit to $22/unit, paid incentive fee on 2 dollar increase. But if price of fund drops to $21/unit, no incentive fee paid out until price exceeds $22/unit).

- Hurdle rate is rate hedge fund must earn before its manager receives an incentive fee (if hurdle rate is 10% and fund earns 40% for year, incentive fees typically be based on 30% return above the hurdle rate

- Advantages of Hedge funds: Focus on Absolute not relative returns; it has a lower correlation with traditional asset classes, potential for lower

volatility and higher returns

- Risks of Hedge funds: regulatory oversight, Market risk, Liquidity constraints, Investment strategy risk

Principal-Protected Notes

- It is a debt instrument. It has a fixed maturity date and pays interest. Underlying asset can be common stocks, mutual funds, stock indexes, commodities or hedge funds
- Several associated costs, unprotected by the CDIC

- One of its core benefits is that principal is protected. This is a great option for those who are risk-averse.
- Common Explicit Costs: Commissions, Management fees, early redemption fees, Structuring costs and guarantee fees.
- Common Implicit Costs: Performance Averaging formulas, Performance Participation Caps, Price Returns versus Total Returns.

Commodity Pools

- They are managed future funds structured and sold as mutual funds.
- Advantages of Commodity Pools: shares similar advantages with hedge funds. Focus on absolute returns, diversification against traditional investments and ability to attract top manager talent
- The inherent risks of Commodity pools includes: Currency risk. Leverage risk, trading risk, liquidity risk
- Managed futures actively trade derivatives products as well as physical commodities, financial assets and currencies.
- Must be sold by means of a long-form prospectus.

- Costs of Commodity pools: use a similar fee structure as hedge funds. Management fee, Performance fee, and high water mark paid regardless of

performance. Not unusual to find performance fees of 15 to 20% or higher and base management fee of about 2% of customer assets

- Before investing in commodity pools: Trading manager of commodity pool must have knowledge of trading history that covers entire business cycle in markets they operate. The longer the trading record, the better. Should also look at trading manager's previous cumulative declines in equity (drawdowns), so investor can see how long it took trading manager to

recover after a loss.

Closed-End Funds

- Similar to mutual fund but unlike a mutual fund, it has a fixed number of shares as opposed to a mutual fund that continually issues and redeems units of shares.
- Managed pool of securities traded on a stock exchange market.
- These funds can trade at par, a discount or a premium over the Net Asset Value.

Value because often a discount to NAV, less liquid, leverage risk because can use borrowed money.

- Interval funds or closed end discretionary funds: funds that have the flexibility to buy back outstanding shares periodically.
- Investors have to pay management fees but they will be lower than those of a mutual funds.
- Closed-end fund issues fixed number of shares that trade on an exchange while open end fund issues as many units as investors are willing to buy.
- Advantages: It can boost total return because it offers certain opportunities for investment returns, in working with closed ended structure money managers not subject to unpredictable cash flow in and out of fund, ability to concentrate on long term investment strategies without having to reserve liquid assets to cover redemptions.

Segregated Funds

The fund for a minimum period, usually ten years. If they sell before the period, they earn at market value.

- Covers following three parties:1) Annuitant (individual whose life the benefits are based. 2) Contract holder (individual purchasing. 3) Beneficiary (the individual who will receive benefits payable under the contract upon the death of the annuitant.

- Shares similarities with mutual fund but comes with death benefit and maturity guarantee which protects investor's principal from market declines. Ensures investor will get back, at maturity or death, up to 100% of their investment, regardless of how market performs or market value

- Insurance contract with 2 parts: 1) an investment that produces the return and 2) an insurance policy that covers the risk

- Advantages: Maturity guarantees (if 100%, invested 100,000 and now 90,000 the guarantee is 10,000). Reset options (if the fund was 50K and now worth 61K after ten years, can reset so principal protected is now 61K but must lock in for another ten years).

- Status as a life insurance policy has two key benefits: Bypassing probate and Creditor protection guaranteed values can be reset (common are semi- annually, quarterly and monthly)

- Costs: higher costs related to guarantees and death benefits which are reflected in higher MERs. The shorter the term of the maturity guarantees the higher the risk and therefore the cost, the more of equity component, the more the cost because more fluctuation, the higher the percentage guarantee, the higher the cost.

- Creditor protection: one must not purposely by segregated fund to

avoid payment to creditors in which case would not be creditor protected, beneficiary has to be named irrevocably and it cannot be revocable

- Protected Funds: provides various benefits of segregated funds like maturity guarantee and allows unit holders to reset maturity value without incurring income tax liability.
- Portfolio funds: allow investors to hold a diversified portfolio of segregated funds through single investment

for death benefit purposes or force them to take a reduced % of guarantee and will not offer death benefit or maturity guarantee past the age of 90 or no principal guarantees past age of 80.

Exchange-Traded Funds

- These are equities that represent ownership in a portfolio of securities structured to track a particular market index closely.
- A combination of Securities structured like mutual funds but traded like individual stocks on an exchange. It combines attributes of mutual funds and stocks
- Advantages: Buy the market, Professional management, low management cost fees, lower operational costs, cash drag (do not have to keep liquid assets like mutual funds)
- Tax efficiency (generates few CG and executes sales of ETF units on open market has no taxable effect on other ETF equity holders because constituent securities are untouched)…Diversification and risk reduction, cost effectiveness, simplicity and convenience, transparency (post their holdings daily), Flexibility (trade throughout the day), Tax Efficiency

- Risks/Disadvantages: shares similarities with individual stock, market and sector risk, trading risk, foreign safety hazard, foreign currency risk, degree, concentration risk (in particular industry)…. Passive Management, Commissions, unsuitable for use in systematic withdrawal plans, total costs may hamper use of ETFs for short-term trading, Dividend Reinvestment (no DRIP plan), Do not necessarily trade at Net Asset Values
- The number of ETFs based on commodities such as gold, silver, uranium, oil and gas, and agriculture as well as fixed income securities
- ETF performance mostly reflects the index it tracks. They are traded on an exchange floor and can be transacted throughout the day,
- Tracking error: Degree to which ETF fails to mirror the index returns (manager intentionally holds some tracking error because costly to precisely track its index)
- Costs: bares commission when buying and selling. MERs are very low

- Features similar to stocks and different than mutual funds: listed on the main exchanges while MF purchased directly from the fund company, can be traded throughout the trading day while MF may be bought throughout the day but price reflects weighted closing prices of a basket of stocks that fund holds.
- Features shared by Mutual Funds: represent underlying holding of basket of securities and reflects performance of basket, incurs ongoing management fees, have substantial market coverage
- ETFs are different from stocks in that their liquidity is not dependent on the number of unit or shares issued and outstanding. Since ETFs are open-ended trusts, more units or shares can be created as required. Thus, it is the

liquidity of the securities that comprise the index that determine the ultimate liquidity of the ETF

- ETFs are built to monitor yields of a market index, not to outperform it

- ETFs are bought on major stock exchanges and not through distributors or agents.

- Alternative Managed products include: Closed-end funds, ETFs, Commodity pools

- If hedge fund has a 4% hurdle rate and its manager gains 9%, manager's incentive fee is pegged at 5%

- Types of risk a PPN can carry: liquidity risk, performance risk, credit risk and currency risk.

- Trading in a commodity when its price is at lock limit up: commodity contracts have daily price limits which is maximum one day move up or down permitted for the contract in question. It is the trading issue of a commodity contract when it reaches its maximum one day move up or down.

Section 14: Understanding Mutual Fund Performance

Portfolio Performance Appraised

- Usually, compare the fund to the average. Or can quantify against a standard like the T-Bill rate.

- (Ending NAVPS – Beginning NAVPS)/Beginning NAVPS X 100 = Gain…

this calculation might be inaccurate if funds were added or withdrawn

- Cannot compare 2 returns with different risks, use the Sharpe Ratio instead

- Sharpe Ratio: developed to consider both risk and return of the portfolio. Sharpe Ratio = (Return of Portfolio – Risk-Free Rate)/Standard Deviation of Portfolio.

Performance Assessment

- Performance Assessment: comparing performance to benchmark
- Two kinds: 1) Benchmark indexes (performance of well-known market index) 2) Comparison universe (performance of group of funds that have comparable asset classes and risk profiles)
- Common benchmark indexes for mutual funds: S and P/TSX Composite (largest listed equities that trade on the TSX measured by market cap), S and P/TSX 60 (60 largest companies that trade on TSX measured by market cap), S and P 500 (500 largest publicly held companies that trade on U.S. markets), MSCI EAFE Index (Morgan Stanley Capital International Index of European, Australasian, and Far East stocks), DEX Universe Bond Index (Broad measure of Canadian government and corporate bond market),

Scotia Capital Markets 91-Day T-Bill Index (return of 91 day Canadian Treasury Bills)

- Must adhere to certain standards: identify superior/ordinary/inferior performance, not require manipulation, be sufficiently realistic to be useful in practice… should be based on comparable period.
- Performance Assessment: comparing performance to the standard.

- Can be conducted in 2 ways: 1) Comparison universe (performance of the group of funds that have similar asset classes and risk profiles. 2) Benchmark indexes (performance of well-known market index).
- Must adhere to certain standards: identify outstanding/ordinary/inferior functionality, manipulation not required, be sufficiently realistic to be utilized in the field.. should be based on similar period.

How is a Comparison Universe Used?

- Most popular method of comparison is comparing mutual fund's return with performance of a peer group, which comprises of mutual funds with similar investment mandates
- Comparison universe is a collection of portfolios that form the basis of comparison.
- Prevent comparing funds that share no similarities or have differing investment objectives or levels of risk acceptance
- Risk: should contemplate risk and unpredictability. Look at the standard

deviation of returns, beta, the amount of calendar years it has lost money, and fund's worst yearly/quarterly/monthly losses accurately reflect true asset base of fund. Like when the Canadian equity fund is holding significant part of assets in matters other than equities.

Quartile Ranking

- Used to measure manager performance to peer group. Quartile divides performance into 4 parts (top 25% to bottom 25%)
- Drawbacks to Comparison Universe method: must compare oranges with oranges
- Appraisal firms and analysts each have own unique method of universe construction and sometimes differences enough that a mutual fund manager may rank in top half of managers in one universe and in bottom half of competing firm's universe
- All comparison universes also exhibit some degree of survivorship bias.

from rankings in following quarters. Top performing managers can appear to have underperformed as the investment period lengthens. Managers will usually rank lower in surviving universe in three years, five years and ten- year return comparisons

- 3 performance measurement characteristics of mutual funds: 1) measure should be immune to manipulation. 2) Measurement should measure superior/ordinary/inferior performance. 3) Measure should be realistic
- Shortcomings of using Comparison universe method: 1) Contents of many comparison universes are poorly defined so investors don't know what is being compared against. 2) Survivorship bias distorts 3) Universe

construction and compilation is similar across professional appraisal service firms but each has its

own unique methodology (can create different rankings depending on universe)

Section 15: Selecting a Mutual Fund

How does Volatility impact Mutual Fund Returns?

Market funds, Mortgage Funds, Bond Funds, Real Estate Funds, Specialty funds

- New information leads to volatility in prices.

- There is the possibility that funds believed to be of lower volatility may have higher volatility than other.

- Unique Risk can be diversified away while Market risk will always remain

What other Elements should be Considered when Analyzing and Selecting Mutual Funds?

- Canadian Investment Funds Standards Committee (CIFSC) is the organization that oversees mutual fund classification, listing 45 categories containing more than 5000 funds.

philosophy, process and performance

- People: usually, managed by a portfolio manager with several years' experience backed by a team of analysts, client service staff, back office staff, and technology. Portfolio managers should have equity stake with performance bonus incentives. Steady growth in clients and Assets under Management (AUM) is a good sign. A number of client accounts and level of AUM should be sufficient to enable the firm to pay for overhead/technological infrastructure and salaries plus bonuses and profit sharing.
- Philosophy: examine the firm's investment philosophy. Philosophies of Equity Investing: Value investing (seek bargains, have better chance of succeeding if given long time horizon, at least 5 years), Growth Investing (seek sectors of expanding earnings), Sector Rotation (manager's attempt to profit through timing, more emphasis placed on industry weighting than security selection), Momentum investing (managers believe that strong gains in earnings or stock price will translate into stronger gains in earnings or stock price, tend to be more concentrated in certain areas of the economy)
- Process: the process by which value is accrued to the fund. 1) Elements that are verifiable and transparent 2) Decision-making

procedures that are team based. 3) Processes can include records of company visits, manager interviews, screening and selection criteria, proprietary economic analysis, sector, and stock weight ranges, etc.

- Performance: Goes beyond added value over a given standard, also accounts for manager's consistency and frequency of relative performance plus the risk was taken to get good returns and also looks at the consistency of investment style over time. Style analysis is the study of Style Drift. Style drift is the change in manager's investment style over a period.

- Simple rate of return of 20% means that an investor earned 20% over the period of investment. A compound return of 20%, however, is the return earned each year of the investment

- Investors need to compare funds that share the same level of risk

What are the Steps in Selecting a Mutual Fund?

1) Research the Performance Data

2) Focus on actual Investment Objectives: Compare funds which have similar investment goals i.e. compare two equity funds or two real estate funds but don't compare a money market fund to a real estate fund

3) Focus on Best Long-Term Performance: an equity fund with less than three years of performance data does not give a good idea of long term performance. When comparing mortgage funds as suitable shorter term investments, three years is acceptable period. For Bond Funds and Equity funds, it should cover at least one complete market cycle.

4) Focus on Best Year to Year Performance

5) Focus on Good Performers with Lower Volatility: Reward to Risk Ratio: Fund Return/Fund Standard Deviation. If equals 0.5 this means the fund earns 0.5% for every 1% of SD. If another fund is 0.6, that fund can earn a better return for the 1% of SD… Sharpe Ratio: (Fund Return – T bill rate)/Fund SD. This only takes into account the return which exceeded the T-bill rate, if the answer is negative it is because the fund return is less than the T-bill rate… Beta (same as market would be 1)

6) Focus on Funds with top performing Investment Managers: if good performance persists over an extended period, it is likely that good management is the reason.

7) Compare Fund Facts Documents and Compare Prospectuses: at this point, have narrowed down to a few funds. These documents include sales charges, valuation, minimum investment requirements, etc.

8) Examine fees: Performance data reflect management fees and operating expenses charged to the fund but do not include charges paid by individual investors such as acquisition and redemption fees. These fees are not bad when an investor holds fund a long time like spreading out a 5% charge over ten years as opposed to a 1-year investment. In general, for similar investments choose lower MER because these will cut into returns

9) Measure the Size of the Fund: bigger funds can have the disadvantage that they cannot shift their large portfolios as rapidly. Also, large purchases or sales in the market can have an impact on securities prices. On the other hand, smaller funds are untested and have short track record so can be risky

10) Make the Decision: Select the fund that has best long-term performance about risk (volatility) obtained by the manager responsible for fund's performance. Keep in mind that past data is not always indicative

of future performance.

Section 16: Mutual Fund Fees and Services

What are the Fees and Charges of Mutual Funds?

- Mutual funds attract two kinds of fees: 1) Sales charges or sales commissions: charged upon purchase or sale mutual fund. 2) Management fees: payable by the fund to the fund's service providers (range from 0.5% to 3%)

- Trailer fees: asides management fees or load charges, mutual fund investors must pay annual fee based on a fixed % of assets (from 0.25% to 1%)

- Sales fees or load charges: Those that are paid upon purchase are called front –end load. Those paid upon redemption are called back-end load or deferred sales charge. Mutual funds that do not charge sales fees are known as no-load funds

- Acquisition fees: also called front-end loads or sales charges is a sales charge based on dollar value invested in a mutual fund.

- To calculate a fund's offering or purchase price per unit when it has a front- end load charge, you must first ascertain the NAVPS and then make an adjustment for the load charge. Using NAVPS of $12 and front-end load

of 4%, calculate as Offering or Purchase Price = NAVPS/(100% - Sales Charge) =

12.50. This shows that if you buy a fund with an NAVPS of $12 and 4% front-end load, the fund units would cost you 12.50. Note that the sales charge of 4% of the offering price is the equivalent of 4.17% of the net asset value. 4% of 12.50 = 0.5...0.5/12 = 4.17%

- It is crucial to note that sales charges indicated in fund facts document are maximum charges. Investors can always negotiate for lower charges

- Redemption fee: fees paid when investors sell units, also referred to as deferred sales charge or back-end load. The fee can be based on the NAVPS at the beginning or the end of the investment. For example, if beginning NAVPS is 15 and ending NAVPS is 20, and back-end load is 3%. If based on original NAVPS, investor gets 20 – (15 X 0.03).. if based on ending NAVPS investor gets 20

– (15 X 0.03)

- Mutual funds must pay to their investment companies operating expenses in addition to management fees

- Most mutual funds with some type of sales charge now give clients the choice of paying either acquisition fee or a redemption fee

- Other fees: Trustee fees (if mutual funds within RRSP, RRIF or RESP), Set up fees (one-time fee for first-time investor purchases mutual fund units. Account closing fees (when closing mutual fund account, sometimes waived if closed because of death).

- Transfer fees (when switching investments from one fund to

another), Frequent trading charge (limited number of transactions, if exceed get charged),

- Trailing commission or service fee: when investment companies pay mutual fund distributors an amount based on Net asset value of distributor's clients' holdings in their fund. This is to compensate mutual funds sales reps and advisors for providing ongoing services to clients

- Explicit costs: directly borne by the investor. Fall into three sections: 1) Operating expenses. 2) Management fees. 3) Sales charges

- Management fees compensates the investment firm known as fund sponsor

- MER (Management Expense Ratio) is the total of management fees and operating costs paid by a fund and expressed as a % of its average net assets

- Turnover rate: proportion of total fund's assets traded in a year. Fund that has 100% turnover ratio over course of year has sold and bought its entire portfolio. Value funds typically have turnover ratio less than 50% while growth funds typically top 100% or more. In general, managers with high turnover rates have greater risk of underperforming while it creates lots of tax liability for Canadian Government.

- Trading Expense Ratio (expressed as %) should also be shown in fund facts document

- Costs are important to compare performance and volatility before comparing costs, the shorter the time frame, the fewer costs matter, costs have

no correlation to a manager's ability to manage an investment fund, funds operating less than a year will reflect an MER only reporting a management fee and not the operating expense until it has been in existence for at least a year

- Implicit Costs: Trading Costs are implicit, measured by brokerage fees and turnover, and are not expensed in MER. Instead, they are, capitalized. So trading costs of 30 are added to stock purchased for 1000 so cost is 1030 so represents a higher breakeven point.

Accumulation Plans

- Accumulation plan (or pre-authorized investment plan): grant investors facility of making automatic period purchases of units of a particular mutual fund.
- Accumulation plans have two benefits: investment discipline and dollar cost averaging.
- Investment discipline lets investors invest every period instead of choosing on their own and not having enough to invest and hitting a snag.
- Dollar cost averaging: By investing a certain dollar amount (and not trying to time the market), the average cost of investment over the long-run tends to be lower.
- Voluntary accumulation plan: allows clients to specify the amount and timing of the periodic investments they are willing to make

Systematic Withdrawal Plans

Systematic withdrawal plans: Instead of withdrawing all of the money in a mutual fund, client instructs the fund to pay out part of the capital invested plus distributions over a period. Five types: Fixed-dollar, Ratio, Fixed-period, Life, Annuity

Right of redemption: given to all mutual fund holders

1) Fixed-Dollar (or Constant) Withdrawal plan: clients ask to receive a recurrent fixed amount of money through the redemption of units of their mutual fund. If the payout is large, sometimes it will be greater than the income and CGs generated, so some of the client's capital will have to be removed

Ratio withdrawal plan: clients demand to receive a fixed % of fund value, like 20% annually

Fixed period withdrawal plan: client will receive money over a period of time until mutual fund investment is completely paid out. The client chooses years to be paid out and each year divide total value of fund divided by years left.

Life withdrawal plan: just like fixed period plan but the period selected is the expected remaining lifetime of the client. Remaining lifetime can be calculated from life insurance mortality tables.

Annuity: a contract between an individual and a life insurance company where the individual, called the annuitant, gives a certain amount of money to an insurance company.

How are Mutual Funds Taxed?

- When mutual funds are held outside a registered plan, the unit holder of an unincorporated fund is sent a T3 form, and a shareholder is sent a T5 form. The form reports types of income distributed that year – foreign income and Canadian interest, dividend and CG, including reinvested dividend.
- In a mutual fund, any CG generated are passed on to the unit holder, but Capital losses cannot be passed and stay within the fund

- Care should be observed upon buying a mutual fund at the end of the year because any CG triggered during the year will be taxed at the end of the year. So, if purchasing a mutual fund one month before the year end, you will be taxed for a full years' CGs
- Adjusting the cost Base: with many different transactions, adequate records should be kept otherwise it will be very hard and time-consuming to recalculate the cost base

- When funds are reinvested, the investor owns more units worth less NAVPS. The net effect is the same overall amount.
- Reinvesting distributions: can do so instead of getting cash dividends. When dividend and CG are distributed, the NAVPS falls.
- If an investor invests 20K in a mutual fund and annual income is distributed, but the investor chooses to reinvest it, and later sells the mutual fund for 28K, the CG is NOT 8K because funds were reinvested. Say the amount of reinvested income is about 3500, the cost base would be 13,500 and the CG would be 4500

- Distributions (interest, dividend, and CG) are taxed to the unit holder every year. Dividends are taxed whether they are reinvested or not.
- Reinvested interest, divided or CG will increase the ACB of the asset

- An individual's return is based on the full amount he gave to the mutual fund while Fund performance is based on the net amount invested after the front-end load is deducted
- No-load fund: a fund that does not charge any sales fees. Whether a mutual fund charges sales fees or not, it will still charge management fees
- There are two ways funds might carry a redemption fee. This is either based on the initial value of the investment or the terminal value. If the fund's NAVPS has increased significantly over the period, using the terminal value will be more costly to the investor
- Management expense ratio is calculated by summing up all

expenses and management fees paid and payable by the fund and dividing by the average total assets.

- If you invest in a mutual fund for 35K in year 1 and choose to reinvest any distributions and after year 5 the value is 50K, the 15K increase is partly due

to reinvested amounts and partly due to a CG. The reinvested amounts were taxed each year while the CG is taxed upon the sale

- Adjusted cost Base = Original Cost + Reinvested Dividends

- CG = Proceeds on Sale – Adjusted cost Base

- Taxable Capital Gain – CG X 50%

- Adjusted Cost Base = Original Investment + Interest + Dividends + CG

- Simple Return = (Ending NAVPS-Original NAVPS)/Original NAVPS

Section 17: Mutual Fund Dealer Regulation

What are the Mandate and Scope of Securities Administrators?

- Powers of the Securities Administrators: Disclosure,

Enforcement, Registration.

- Security administrators issue policy statements regularly which imposes their position on various issues and topics
- Provincial Policies: particular to the individual province

- National Instruments and National Policies: embraced by all provinces and territories.
- Uniform Policies: applicable in BC, Alberta, Saskatchewan, Manitoba and Ontario

What are Self-Regulatory Organizations?

- Securities administrators granted the Mutual Fund Dealers Association (MFDA) the right to regulate mutual fund dealers in June 1998
- MFDA does not cover customers' losses related to changing market values, unsuitable investments or the default of a mutual fund or its manager.

Coverage period limited to $1,000,000 per customer account for losses related to securities, cash balances, segregated funds and certain other property

- MFDA has power to: analyze and monitor complaints, investigate possible violation of its rules and policies, handle disciplinary actions, impose fines and suspend rights and privileges of membership in MFDA
- National Instrument 31-103: provides that each mutual fund dealer must maintain a compliance system that provides assurance that the dealer and the individuals acting on its behalf comply with securities legislation and manage business risk in accordance with prudent business practices
- MFDA Rule No. 2"Business Conduct" sets out standards applicable to all MFDA members: deal fairly/honestly and in good faith, observe high standards of ethics, not engage in business conduct that is unbecoming or detrimental to public interest, be of such character and business repute and have such experience and training as is consistent with standards.

- Quebec as the Authorite des marches financiers (AMF)

- Branch Compliance Officer (BCO): each branch or office of an MFDA dealer required to have a person responsible for compliance

What are the Registration Requirements?

- Before registration, an individual may: receive a redemption request for the purpose of processing redemption, receive completed order form for the purpose of forwarding it to the registered salesperson, provide basic info to current unit holders regarding their current holdings (net asset value, the number of units, income and CG, etc.). advice/recommendations on mutual funds, hand out a fund facts document/mutual fund prospectus/AIF or annual or semi-annual financial report, hand out order form for mutual funds, assist client with completion of an order form for mutual funds, provide info about a specific mutual fund
- Must possess Educational Qualifications: either IFIC or CSC. All mutual fund dealing reps are required to complete a training program within 90 days from the day that they first start acting as a dealing representative and must be closely supervised for 6 months
- Registration Process: 1) Candidate successfully passes exam 2) Sponsor notifies the candidate of exam results 3) Candidate files registration application and the appropriate fee with provincial or territorial securities administrator 4) To remain a registered dealing rep, must pay an annual fee at specified time

frames. If individual not registered within three years of successful completion of exam, must re-do process 5) Registered dealing rep and registrant's dealer must notify appropriate securities administrator promptly in writing within five business days of any changes in specified information provided on dealing representative's registration application administrator of termination and reason within five business days. If mutual fund rep finds work elsewhere within six months, provide notice in writing to securities administrator. If the period is greater than six months, must reapply for registration. If someone transfers to another province or territory, notice must be sent to securities administrator by using National Registrant Database

- National Registration Database: Application for registration is filed electronically on the National Registration Database with the appropriate

fee. Requirements include: mutual fund reps may only be employed by or sponsored by a single mutual fund dealer, mutual fund dealing reps are not permitted to carry on other forms of employment without prior approval of appropriate securities administrator and SRO of which firms are members. Applicants must complete detailed registration application setting out details of their past business, employment, and conduct, and agree that securities administrators may obtain a copy of applicant's criminal record if one exists.

- Dual Employment: permits dually registered people as mutual fund dealing reps and life insurance agents. Can do this provided that securities

commission or administrator specifically permits registrant to devote less than full time to business of organization, dealing representative's dealer is aware and approves of other occupation, dealer establishes and maintains procedures to ensure continuous service to clients, other gainful occupation must not bring MDFA/its members/or mutual fund industry into disrepute, clear disclosure provided to clients that any activities related to other occupation are not business or responsibility of the dealers.

How do Representatives and Dealers satisfy the "Know Your Client Rules"?

- Required to maintain that client's investments are suitable for them

- Prior to taking a client, securities regulations demands that dealers collect info on client and do: learn essential facts relative to client before opening account and maintain knowledge on ongoing basis, learn essential facts of every order and ensure order is within bounds of good practice, learn

circumstances behind each transaction, ensure recommendations made for client are appropriate

- Before proceeding with an unsuitable, unsolicited order, dealing reps should consult with their Branch Manager or Branch Compliance Officer, and there must be written procedures on how to handle this, and there is no obligation to accept the order

- Anti-Money Laundering and Anti-terrorist Financing requirements should be met before opening any account

- Financial Interest in an account: investment experience and knowledge of all individual who has trading authority over the account should be obtained, as well as Know Your Client info for anyone with a financial interest in the account

- Changes in Circumstances: judgment used to determine whether sufficient KYC info has been obtained. Should be updated whenever something material happens and at least once a year, dealer must request in writing that each client notify of any material change in circumstances

What are the Steps in Opening a Mutual Fund Account

- Securities regulations require that opening an account for a new client, the dealer must provide client with written relationship disclosure info which includes: description of the nature or type of client account, description of products/services offered by mutual fund dealer, description of procedures at the dealer regarding handling of cash and cheques, description of dealer's obligation to ensure each order accepted or any recommendation made to the client is suitable, circumstances in which suitability review will be made like for a material change, description of content and frequency of client reporting, description of nature of compensation that may be paid to dealer, general

explanation of how investment performance benchmarks might be used to assess performance of client's investments

- Order form, which is sometimes incorporated into the account opening

form, is used to subscribe for units or shares of a mutual fund. This needs to be accepted by the dealer and usually is. It only won't when the client has not completed all of KYC info or refuses to supply info. Another reason they can be declined is if they engage in short-term trading, trading mutual funds frequently. This would occur for no-load funds because there is no fee attached. To prevent this, fund companies have attached fees if fund is held below a certain period

- New Accounts: New Account Application Form is completed for each new client account. KYC info is included in this.

- New Account Application Form: used to open new accounts and may also be used to record changes to the personal information in client's file.

- Types of Accounts: if going to an RRSP they should name a beneficiary otherwise if they die it will go to the estate, and there could be fees associated with removing funds. Joint Accounts (all parties must have identical time horizons, risk tolerance and investment objectives, KYC info obtained from all account holders), Tenants in common (each party owns a pro-rated portion of the account), Corporations, Estates and Trusts, Partnerships, Group plans, Minor's accounts (should be placed in name of parent, or guaranteed by parent),

Investment Clubs, School Boards/Public utilities/lodges/societies and houses of worship.

- The account opening process should be done in person, but it can also be done over the phone or electronically.

- Obtain following info: Full legal name, Permanent address, mailing address, SIN, Date of Birth

- Referral arrangement: where member of MFDA is paid a fee, including fees based on commissions, for the referral of a client to or from another person.
- The date upon which the client informs the dealing rep that the KYC info has changed must be recorded and maintained
- Securities owned by clients of an intermediary (e.g.. Mutual fund dealer) are recorded either in client's name or the name of the intermediary. Securities recorded in client's name commonly referred to as "client-name securities" while securities recorded in the name of intermediary commonly referred to as

"nominee-name securities". A nominee owner is a person or entity named to act on behalf of another person or entity usually to facilitate processing of transactions

What are the Prohibited Selling Practices?

- Repurchase Offer: dealing representative cannot make offers to repurchase securities in an attempt to insulate investors from downturns in price.
- Quoting a Future price: when an investor places an order, the price per unit or share is not known because it depends on the time of day and there is a waiting period.
- making sales without being registered
- Advertising the Registration: Dealing reps may not advertise or promote the fact they are registered with a securities administrator
- Use of Trade Names by dealing representatives: might not conduct business using a business or trade name or style name other than the one owned by his or her mutual fund dealer or affiliated corporation unless written consent was given.

- Provision of non-monetary benefits: not allowed to accept gifts unless they are non-monetary and of little value that would not influence decision.
- general power of attorney or similar authorization from a client in their favour and relying on such power of attorney or similar authorization to purchase or sell securities on behalf of the client for the client's account.
- guaranteeing a future price
- Sales made from one province into another province, territory or country: Cannot sell to another region where not registered to sell
- Sales of securities and other products: cannot sell what is not permissible.

What are Your Other Legal Responsibilities?

- There are scenarios where the government wants to conduct a client investigation for information and in that case, provide the info and do not inform the client about this.

Complaints about any aspect of PIPEDA. Can investigate complaints and audit personal information management practices of an organization and if still unresolved can go to Federal court

- Personal Information Protection and Electronic Documents Act (PIPEDA): provides protection for personal info and grants legal status to electronic documents. For example, requires firms to: obtain consent when they collect/use/disclose personal info, provide a product or service even if an individual refuses to consent to the collection/use or disclosure of personal info unless that info is essential to the transaction, collect info by fair and lawful means, have personal info policies that are clear/understandable and readily available

- Electronic Commerce: conducting transactions involving: automated banking machines, credit and debit cards, electronic data interchange (between FIs over private network), banking by phone and online banking, faxes

- Know Your Client rule means meeting legal, ethical and professional responsibilities

- Terrorist financing: funding of terrorist groups or terrorist activity

- Financial Action Task Force (FATF): the inter-governmental body whose purpose is to develop and promote national and international policies to combat money laundering and terrorist financing. Annually publishes a list of countries non-cooperating and will add or delete from the list annually. Reviews its mission every five years

- Under current legislation, designated persons and entities are required to: report suspicious and certain prescribed transactions, implement a compliance regime, verify client identification regarding specific transactions, comply with new record-keeping requirements, report any deposit transactions of $10,000 CDN or more made in cash

Brief description of account opening process for new client: 1) Advisor conducts client discovery interview to learn more about client 2) Advisor completes New Account Application Form 3) Partner, director, officer or

branch manager of advisor’s dealer member approves application form 4) Client may place first transaction.

New Account Application Form protects both clients and dealer member. Clients are protected by having professional advisors know what investments best suit their situations.

What are the Rules for Communications with Clients?

- Ensure that sales communication does not mislead a client. Do not omit or make any false statement. Information should be consistent with information provided in fund’s fund facts document and simplified prospectus.
- A complaint is any one of the following 3 elements: 1) Reproach against a regulated person 2) Identification of real or potential harm that a consumer has experienced or may experience 3) Request for remedial action
- Client Relationship Model (CRM): 2 major components: 1) Streamlined license regiment for all financial service providers 2) set of business conduct standards aiming to achieve understandable disclosure, meaningful

communication of expectations and effective management of conflicts of interest.

- The first phase of CRM was to implement a nationwide harmonization

of registration requirements and client relationship disclosure info. The next phase continues to involve with the objective of allowing investors to understand what it costs them to invest and how their investments are performing. These requirements will be transitioned over the next 3 years.

- All client complaints must be responded to in writing and must be handled by a qualified supervisor or member of compliance staff
- Regulated person must examine every complaint, not just those relating to a possible violation. Complainant must provide any additional info in writing

What Are Ethics and the Advisors Standards of Conducts?

The Code of Ethics

- Securities industry has a Code of Ethics, based on trust, integrity, justice, fairness, honesty, responsibility & reliability
- 5 primary values:
    - o must use proper care and exercise independent professional judgment
    - o must conduct selves with trustworthiness and integrity, act in an honest and fair manner in all dealings with public, clients, employers and colleagues
    - o must (and should encourage others to) conduct business in a professional manner reflecting positively on selves, firms and profession. Must strive to maintain and improve professional knowledge
    - o must act in accordance with relevant provincial securities act and all SROs o must hold client information in strict confidence
- ethical behavior:
    - o is different from rules; requires judgment and moral correctness o adds 'spirit of the law' to 'letter of the law'

Standards of Conduct

- expands on code of ethics, sets out requirements for behavior
- based largely on provincial securities acts and SRO rules

Standard A-Duty of Care

- Know Your Client: get client information as noted previously
- Due Diligence:

    - make recommendations based on careful analysis of client information and transaction-related information
- Unsolicited Orders:
    - these are orders placed by client with no advice from advisor:
        - advisor should advise on unsuitable orders
        - should take safeguarding measures when clients insist on unsuitable orders
    - IIROC now says full-service brokers have opportunity to accept unsolicited orders without a suitability obligation
        - regulatory requirement:
            - clients must sign disclosure agreement, giving consent that non- recommended trades will not be subject to a suitability review

<u>Standard B -Trustworthiness, Honesty and Fairness</u>

- registrants must observe the following:
    - Priority of Clients Interest
        - client's interest must be foremost consideration in all dealings
        - if registrant has competing interests, client must be given priority
    - Respect for Client's Assets
        - Client's assets can only be used for client; may not be used by registrant
    - Complete and Accurate Information Relayed to Client
        - must take reasonable steps to ensure that information provided to client regarding portfolio is complete and accurate
        - registrant must accurately represent details of client's investment to clients in reports
        - must be familiar with investment holdings and must not misrepresent facts to create a more favorable view

- Disclosure
  - must disclose all existing and potential conflicts to ensure fair dealing
- trust is based on competence and integrity

<u>Standard C – Professionalism</u>

- main considerations:
  - client business:
    - all methods of soliciting and conducting business must instill public respect and confidence
  - client orders:
    - all orders must be entered at client's direction unless account is:
      - discretionary or managed
  - trades by registered and approved individuals:
    - all trades and 'acts in furtherance of trades' must be effected by individuals who are registered according to legislation and SRO rules
  - approved securities:
    - only securities approved by regulatory authorities and partner/director/officer of firm should be distributed.
    - All trades should be properly recorded
  - personal business:
    - personal business affairs of registrants must be conducted in professional/responsible manner

- personal financial dealings with clients:
    - avoid personal financial dealings with clients, including:
        - lending/borrowing money
        - paying losses out of personal funds
        - sharing financial interest in an account with client
        - any such dealings must avoid conflicts be reported to firm
- personal trading activity:
    - Registrant should minimize personal trading activity; may compromise time & attention to clients
    - excessive personal trading losses may present negative 'responsible professional' image
- other personal endeavors:
    - Any other publicly visible activity should be conducted in responsible and moderate way (e.g. politics, organizations)
- continuous education:
    - must continually upgrade levels of technical and general knowledge to ensure proper advice

- fiduciary relationship: needed where there is an imbalance of knowledge or control between two morally-related parties
    - registrants must be aware of client vulnerabilities

<u>Standard D -Conduct in Accordance with Securities Acts</u>

- must ensure compliance with securities acts and applicable SRO rules and regulations
    - cannot knowingly assist in any act in violation of any applicable law, rule or regulation or industry codes of ethics, standards of conduct
- if registrant acquires insider information, it cannot be communicated or acted upon and must be safeguarded

Standard E – Confidentiality

- all client information and information on transactions and accounts may not be disclosed except with permission, or by order of proper authority:
  - client information:
    - identities and client circumstances are confidential and must be properly safeguarded
  - use of confidential information:
    - any client information, including pending orders, cannot be used in any way to effect trades in personal or proprietary accounts or in accounts of other clients

Practice Questions

Investment Funds / Mutual Funds (IFIC) – Practice Exam Questions and Answers Bank

Section 1 – Practice Questions

1. The mutual fund trust structure enables the fund itself to avoid taxation. Any interest, dividends or capital gains income, net of fees and expenses, is passed on directly to the **unit holders**.

a) True

b) False

2. Exchange-traded funds (ETFs) are considered tax efficient investment for which of the following reasons?

a) Lower overall trading volume

b) Use of leverage

c) Ability to short sell

d) Lower operational cost

3. What is forward pricing? (right way to calculate price) backward pricing is illegal

a) It involves using the NAVPU at the close of the business day on which the order is given

b) It involves using the most recent NAVPU that is available

c) It involves predicting the future price of a unit and using this to calculate the price today

d) It can only be used when an investor is selling units, not when buying

4. Mutual fund shares or units are purchased directly from the fund and are sold back to the fund when the investor redeems his or her units. Mutual funds are said to be in a continuous state of primary distribution. What is this price referred as?

a) Offering price

b) Net Asset Value per share

c) Bidding price

d) Net present value

5. What are the three main primary investment objectives for mutual funds?

i) Safety

ii) Income

iii) Tax savings

iv) Liquidity

v) Growth

a) i, ii

b) i, ii, iii

c) i, ii, v

d) i, iii, v

6. All of the following are considered advantages of mutual funds, except?

a) Variety of types of funds and transferability

b) Low-Cost Professional management

c) Suitable as a Short-term investment or emergency reserve

d) Diversification

7. What are the investment objectives of an equity index fund?

a) Safety of initial capital

b) To provide long-term growth of capital

c) Regular income

d) Liquidity

8. The most common structure for mutual funds is?

a) closed-end trust

b) variable rate contract

c) open-end trust

d) none of the above

9. Why are mortgage funds considered less risky than bond funds?

a) Mortgage funds pay interest monthly while bond funds pay interest semi-annually

b) Mortgage terms are usually shorter than bond terms, 1 to 5 years, thus less risky than bond funds

c) Many mortgage funds hold a very large number of individual mortgages, this risk is diversified away

d) All of the above

10. What is the function of this group of the directors and trustees within mutual fund organizations?

a) To ensure that the funds representatives explain the objectives and terms of various funds in language that is understandable to new investors

b) To collect money received from the fund's buyers and from portfolio income and arrange for cash distributions as outlined by the fund

c) To provide the day-to-day supervision of the fund's investment portfolio and abide by industry regulations

d) Hold the ultimate responsibility for the activities of the fund, ensuring that the investments are in keeping with the fund's investment objectives

11. Calculate the price of a mutual fund at redemption, based on the following information; NAV of $20. back-end load of 2%?

a) $14.50 = $20 - .20 = $18.60

b) $19.60 NAVPS = NAVPS – (NAVPS X BEL%)

c) $20.00

d) $20.40 =$10 – ($10 x.02)

12. If a mutual fund is sold on a no load basis what will be the purchase price?

a) The purchase price will be more than its NAVPS

b) The purchase price will be less than its NAVPS

c) The purchase price will be the same as its NAVPS

d) The purchase price will me at a maximum of NAVPS

13. When advertising rates of returns on mutual funds in the financial press, these rates are quoted? (17.14)

a) Before back end loads

b) After back end loads

c) Before management fees

d) After the management fees

14. What does the Mutual Fund Dealers Association (MFDA) regulate?

a) It regulates how the funds reports its earnings

b) It regulates which funds are allowed to be purchased

c) It regulates how the funds are sold

d) It regulates all areas of the mutual funds industry through the IDA

15. The disclosure documents included as part of the simplified prospectus system consist all of the following.

a) A simplified prospectus

b) The annual information form

c) The annual unaudited statements or interim unaudited financial statements

d) All of the above.

16. Which of the following statement is not true with regards to an Annual Information Form (AIF)?

a) Annual delivery of the annual information form (AIF) is available to investors upon request

b) There is less information contained in an AIF than in a simplified prospectus

c) The prospectus must state that an AIF is available upon request

d) Investors are not typically provided with the AIF

17. The simplified prospectus consists of two sections; Part A and Part B. What is contained in Part A?

a) Specific information about the mutual fund

b) Introductory information about the mutual fund

c) Neither a nor b

d) Both a and b

18. Your client has just informed you that she is celebrating his 50th birthday. As per your learning you realize that she is entering the fourth life cycle stage. Which of the follow steps should you take as her representative?

a) Help the client to develop a financial plan based on her new investment objectives

b) Recommend that she restructure her portfolio based on her new investment objectives

c) Decide if the client's objectives have changed and, if so, suggest more suitable investment choices

d) Notify the client to come in and re-evaluate her investment objectives

19. An application for registration is filed electronically with the National Registration Database. How often must this registration be renewed?

a) Once registered no renewal required unless the individual moves his/her registration to another company or dealer

b) In most provinces every year

c) In most provinces every 5 years

d) In most provinces every 10 years

20. A dealer must carry on its business in such a way that it is made clear to clients that the business of the dealer and the Financial Institution are separate and distinct, in dealing with Mutual funds. Which of the following statements are correct in this respect?

a) Disclosure must be made that the investment is not insured by CDIC or any other government deposit insurer

b) Separate premises within a branch are not required, but adequate disclosure must be made to clients

c) Disclosure must advise clients that the dealer is a separate corporate entity from the FI

d) All of the above

21. Of the funds below, which is considered to be the most aggressive?

a) Money Market Fund

b) Balanced Fund

c) Canadian Equity Fund

d) Balanced Fund

22. How are cash and cash equivalent funds valued?

a) Book Value

b) Constant share or unit value of $10

c) NAVPS

d) Adjusted Cost Base

23. What are the two main risks of bond funds?

a) Investment risk and interest rate risk

b) Default risk and interest rate risk

c) Market risk and interest rate risk

d) Interest rate risk and quality risk

24. Balanced funds cover which of the following categories?

i) Canadian income balanced

ii) Canadian balanced

iii) Canadian tactical asset allocation

iv) Global balanced and asset allocation

a) i, ii

b) i, ii, iii

c) i, ii, iv

d) i, ii, iii, iv

25. Which of the following are the main investment objectives of a balanced fund?

a) Safety, Income

b) Safety, Income and Capital Appreciation

c) Income and Capital Appreciation

d) Income and Diversification

26. What type of income can be received on Balanced Funds?

i) Interest

ii) Dividends

iii) Net Rental Income

iv) Capital Gain

a) i, ii

b) i, ii

c) i, ii, iii

d) i, ii, iv

27. What are the primary investments for equity funds?

a) Common and preferred shares

b) Common shares

c) Preferred shares and fixed income

d) Preferred shares

28. Canadian dividend funds provide tax-advantaged income with some possibility of capital appreciation. Dividend funds are available from which shares?

a) Preferred shares

b) High-quality common shares

c) All common shares

d) Both a and b

29. Management style can be divided into two broad categories?

a) Top Down and Bottom Up

b) Value and Growth

c) Passive and Active

d) Front end and Back end

30. What is meant by "Closet Indexing"?

a) Replicates the market exactly

b) Replicates the market exactly, and sticks as closely as possible to the market weightings by industry sector, by country or region or by average market capitalization

c) Does not replicate the market

d) Does not replicate the market exactly, but sticks fairly closely to the market weightings by industry sector, by country or region or by average market capitalization

31. All of the following represent disadvantages of index funds, except?

a) A strategy to mirror the market, which represents a loss of opportunity to outperform it

b) After the payment of fees and expenses, index mutual funds or index segregated funds return somewhat less than the market benchmark in the long term

c) The management expense ratio is higher on index funds

d) The management expense ratio is lower on index funds

32. In what ways can mutual funds generate taxable income?

a) Distribution of interest income by the fund

b) Capital gains realized by the investor upon disposition

c) Distribution of dividends and capital gains by the fund

d) All of the above

33. It is possible for mutual funds to pay out capital gains at the end of the year. In such cases all of the following statements are correct, except?

a) These gains are distributed to the investors as reinvested share or as cash

b) The distribution is taxable in the hands of the new investor, even though the income was earned over the course of the full year

c) The NAVPS falls by the amount of the distribution, just after the distribution

d) Advisors should not advise clients against investing at year end, if these distributions are expected

34. Under the new CRM II regulations to be enforced in July 2016, which of the following apply to CLIENT statements:

i) The amount of commissions paid by the fund company to the mutual fund representative will be transparent and included in the client statements.

ii) Mutual Fund representatives are required to purchase the cheapest mutual funds offered.

iii) The new rules will make DSC Funds MORE attractive to clients.

iv) The amount of commission paid by the fund company to the mutual fund dealership will be

transparent and included in the client statement.

35. All of the following are false with respect to measuring the Canadian Consumer Price Index, except?

a) Inflation erodes the purchasing power of money

b) CPI represents a measure of the average of the prices paid for a basket of 100 different goods and services typical consumers use

c) When calculating CPI, prices are measured against a month period

d) Inflation and deflation are the same

36. Based on the data provided above in Table 1, which of the following statements is correct?

i) The RBC Tech Fund outperformed the Investors Group Tech Fund

ii) The Investors Group Tech Fund outperformed the RBC Tech Fund

iii) Arithmetic means will always be greater than the geometric means, unless the individual sub period returns are exactly the same, in which case the arithmetic mean will be equal to the geometric mean.

iv) Geometric means will always be greater than the arithmetic means, unless the individual sub period returns are exactly the same, in which case the geometric mean will be equal to the arithmetic mean.

a) i, ii, iii and iv are all correct

b) Only i and iii are correct

c) Only ii and iv are correct

d) Only i and iv are correct

37. Calculate the monthly benefit for an employee in a “Flat Benefit Plan” using the following information; the flat rate is $10 per year of service, the number of years of service required to obtain full pension is 35 years.

a) The employee’s monthly pension would be $100 per month

b) The employee’s monthly pension would be $350 per month

c) The employee’s monthly pension would be $1,000 per month

d) This calculation cannot be made without the employee’s age

38. What are some of the two major reasons why client service is so critical?

i) Mutual funds are subject to sales regulations and disclosure requirements and this demands special client service

ii) Due to the rapidly changing financial services environment, this requires a mutual fund representative to understand the characteristics and purpose of many products and to make recommendations that are best suited to their clients financial goals

iii) Clients will continue to purchase other products and services from the mutual fund representative

iv) Clients will refer other acquaintances to the mutual fund representative

a) i, ii

b) ii, iii

c) iii, iv

d) i, iv

39. Brent is 23 years of age and a resident of Canada. What is the maximum amount that he can contribute to a Tax Free Savings Account for 2011?

a) $5,000

b) $10,000

c) $15,000

d) $20,000

40. The "Know Your Client" rule covers off five components which include: financial goals; financial circumstances, personal circumstances, investment knowledge and ability to tolerate risk. With regards to the client's ability to tolerate risk, which of the following statements is correct?

a) A client's sensitivity to changes in their portfolio

b) Risk is the client's ability to accept the increase and decrease in the portfolio with little variance

c) Risk is the client's ability to accept the potential volatility in returns or the range of possible future outcomes on the price of a security and or fund

d) Risk is the extent to which the possible returns on a security and or portfolio will differ from the expected return

41. Which of the following represent "indirect investments" in capital?

i) investors purchase of a home and keeps money in a savings account

ii) investors purchase of stocks, bonds or mutual funds

iii) home purchase

iv) government investment in highways

a) i, iv

b) i, iii

c) ii only

d) iv only

42. What are the three important characteristics of capital?

i) Scarcity

ii) Mobility

iii) Flexibility

iv) Sensitivity

a) i, ii, iii

b) ii, iii, iv

c) i, ii, iv

d) i, iii, iv

43. Which of the following represent debt instruments or fixed income securities?

i) Commons shares

ii) Mortgages

iii) Treasury Bills

iv) Bonds/ Debentures

a) i, iii, iv

b) i only

c) ii, iii, iv

d) All of the above

44. What is meant by "Market Capitalization"?

a) Total amount of money available for the Bank of Canada to use in the Canadian capital market

b) Total amount of money available for all financial institutions to use in Canadian capital markets for investment purposes

c) The dollar value of a company based on the market price of its issued and outstanding common share

d) Total amount of money available for both financial institution and Bank of Canada to use in the Canadian capital market

45. Which of the following statements is FALSE with respect to withdrawals made from an RESP account, when a child does not attend post-secondary education? Assume that the plan has been in existence for more than 10 years and that the child is over age 21.

a) The contributor may withdraw the income and pay tax on it, with additional surtax of 20%

b) The contributor may withdraw the income and pay no tax on it

c) The contributor may use the income to fill in unused contribution room in his/her RRSP up to a maximum of $50,000

d) If the account was a family plan, the other registered child on the account may use the entire amount in lieu of their siblings not attending post-secondary education

46. Which of the following best describes an Investment Fund?

a) Is an investment dealer that manages open ended funds

b) Is a company or trust that manages investments for its clients. The most common form is the open-end fund also known as mutual fund

c) Is an investment dealer that manages both open ended funds and individual stocks

d) Is a company that manages closed end funds also known as mutual funds

47. Which of the following make up Canada's exchanges for the trading of stocks, options and futures?

i) The TSX Venture Exchange

ii) The Bourse de Montreal

iii) The Toronto Stock Exchange (TSX)

iv) Vancouver Foreign Exchange

v) The Canadian National Stock Exchange (CNSX)

vi) ICE Futures Canada

a) i, ii, iii, iv

b) i, ii, iii, vi

c) i, ii, iv, v

d) All of the above

48. The Mutual Fund Dealers Association (MFDA) is the mutual fund industry's Self Regulator Organization and is responsible for:

a) For the distribution of individual stock investments

b) For the regulation of the mutual fund industry

c) For the distribution side or the dealer of the mutual fund industry

d) For the setting of laws in the issuing of new securities

49. The term "financial intermediaries" is used to describe any organization that facilitates the trading or movement of the financial instruments that transfer capital between suppliers and users. Which of the following are included as "financial intermediaries"?

a) Chartered Banks, trust companies, life insurance companies

b) Chartered Banks, trust companies and investment dealers

c) Chartered Banks, trust companies

d) Chartered banks, trust companies, life insurance companies. Credit unions and investment dealers

50. There are six steps to the planning process. Which of the following lists these steps in the correct order?

a) Interview the client; identify financial problems and constraints; gather data and identify goals and objectives; implement the recommendations; implement the recommendations; periodically review and revise the plan

b) Interview the client; identify financial problems and constraints; gather data and identify goals and objectives; implement the recommendations; periodically review and revise the plan implement the recommendations;

c) Gather data and identify goals and objectives; interview the client; identify financial problems and constraints; implement the recommendations; implement the recommendations; periodically review and

revise the plan

d) Interview the client; gather data and identify goals and objectives; identify financial problems and constraints; implement the recommendations; periodically review and revise the plan implement the recommendations

51. In September 1998, the federal government introduced PIPEDA – the Personal Information Protection and Electronic Documents Act. The Act provides protection for personal information and grants legal status to electronic documents. What is an exception to this Act which allows sales representatives to disclose financial and other personal information without the client's consent?

a) When a corporate official request that personal information be disclosed

b) When a government representative has legal authority to obtain information or when the disclosure is required to administer a federal or provincial law

c) When another sales associate can benefit by obtaining the information to further help the client in the same branch of a financial institution

d) When your manager requests information

52. The role of the Bank of Canada includes all of the following, except?

a) To control the economy via taxation

b) To control and protect the external value of the dollar

c) To regulate credit and currency in the best interest of the economic life of the nation

d) To promote the economic and financial welfare of the population

53. Calculate the yield for a treasury bill that was purchased for $995 and has 91 days to maturity.

a) .002%

b) 2.01%

c) 5.00%

d) 3.85%

54. Which of the following statements is characteristic of banker's acceptances?

a) The bank guarantees the principal not the interest of a corporation's debt

b) Although backed by the bank, the interest rate is dependent upon the corporation's credit rating

c) Typically the bank, not the corporation, repays the outstanding loan

d) The bank charges a stamping fee to guarantee a corporation's debt

55. When interest rates rise, what happens to the net asset value per share of a bond fund invested in long-term bonds?

a) It will decrease because investors will sell the fund and buy treasury bills at higher yields

b) It will increase because investors will be attracted to the fund based on the increase in rates

c) It will decrease because the underlying bonds in the portfolio will decline in value

d) It will remain unchanged because the mutual fund is locked into long-term bonds

56. Richard purchased an investment from his bank that has a maturity date of seven years and common shares as the underlying asset. The investment also has a performance participation cap on it. What type of investment has Richard purchased?

a) Mutual Fund

b) Principal protected note

c) Closed-end Fund

d) Segregated Fund

57. Which of the following require security holder approval?

a) A change in the fund's manager

b) A change in the basis of the calculation of a fee or expense charged to the mutual fund that could increase charges to the mutual fund

c) A change in the fund's fundamental investment objectives

d) All of the above

58. Which of the following statements about bond yield is correct?

a) An upward shift of the yield curve increases the value of the bond

b) Yield to maturity takes into account the compounding of interest

c) Yield to maturity of a bond exceeds current yield when a bond is issued at par

d) Current yield of a bond tends to decrease if the credit rating of the issuer decreases

59. Michael, a retired car salesman, is looking at investing in some preferred shares in or to supplement his income. Besides the regular dividends, he would like the ability to receive additional dividends if the company performs well. Which of the following preferred shares would meet Michael's needs?

a) Variable Rate Preferred

b) Cumulative Preferred

c) Convertible Preferred

d) Participating Preferred

60. Securities regulators recently approved the prospectus for a new mutual fund with BBC bank. What can one reasonably determine as a result of this approval?

a) The security offered under the prospectus is a sound investment

b) The regulators have endorsed the security offered under the prospectus and by extension, have endorsed the bank

c) The individuals who will sell the security offered under the prospectus are knowledgeable and are familiar with the text of the prospectus

d) The prospectus has met the requirements for full, true and plain disclosure of all relevant material facts

61. In February, ABC company share were trading at $27. Mark owns 500 shares, which he plans to sell in June to pay for the cost of his daughter's engagement party. In order to protect himself against a decline in the share price, Mark decides to buy a put option that will allow him to sell the shares at $30. The premium for the put option is $3 and the options expire in June. In June, the stock is trading at $33. Which of the following statements is most applicable to Mark's put option?

a) The strike price for the put option is $32

b) Mark's put option s are considered in the money

c) If Mark does not exercise his options, they will expire worthless

d) The best course of action is for Mark to exercise his options

62. Your clients are concerned about the risks associated with mutual funds. With respect to risk, what should a representative tell them?

a) Risk can be avoided by selecting the appropriate funds

b) Risk is not an issue because all funds have positive returns over the long term

c) Some funds are riskier than others because of the types of assets they hold

d) A mutual fund that is adequately diversified can eliminate risk

63. Jessica was watching BNN and an analyst was recommending a stock called Burnop. According to the analyst, the stock has a tendency to be more volatile than the general market, with a beta of 1.25. The analyst predicted that the overall market will perform at 8.00% for this year. If T-bill yields are currently at 2.00%, what rate of return would Jessica require from Burnop before she would consider it as an investment?

a) 8.60%

b) 10.00%

c) 9.50%

d) 10.50%

64. Which of the following represents a leading economic indicator?

a) S&P/TSX composite Index

b) GDP

c) Adjusted GDP

d) None of the above

65. NYY common shares have a par value of $35 per share and there are 10,000 shares outstanding. The shares have a current market value of $70 per share. If earnings during the last 12 months were $10 per share and dividends were $5 per share, what is the price/earnings ratio for Uptown common shares?

a) 4:1

b) 5:1

c) 6:1

d) 7:1 70/10 (current market price/earnings per share)

66. The net asset value per share (NAVPS) of a mutual fund increased from $10.50 to $17.50 in a period of weeks. If an investor in this fund realized capital gains of $7.00 per share when he sold the fund, what type of fund is this most likely to be?

a) mortgage fund

b) dividend fund

c) bond fund

d) equity growth fund

67. Which of the following funds is most likely to generate positive return? – fund b as it has + standard deviation

a) Fund A with an average return of 5% and a standard deviation of 10 – 5% +/- 10 = Range -5% to 20%

b) Fund B with an average return of 9% and a standard deviation of 7–9% + & - 7 = Range 2% to 16%

c) Fund C with an average return of 10% and a standard deviation of 20 10% +/- 20 = Range -10% to 30%

d) Fund D with an average return of 3% and a standard deviation of 5 3% +/- 5 = Range -2% to 8%

68. Which of the following ratios best presents a company's ability to meet its current liabilities?

a) gross profit ratio

b) net profit ratio

c) quick ratio

d) current ratio

69. Which of the following statements is incorrect with respect to the price-earnings ratio?

a) Price-earnings ratio compares the company's current price of its common share to the earning per common share

b) The main reason for calculating earnings per common share is to show that a share is selling at so many times its actual or anticipated annual earnings

c) It can be used to determine what price should be paid for a common share

d) It can be used to determine what dividends will be paid to preferred shareholders

70. Which of the following items would be considered an intangible asset?

a) Goodwill

b) Accounts Receivables

c) Inventory

d) Cash

71. What is the role of the mutual fund dealer?

a) portfolio advisor

b) custodian

c) distributor

d) transfer agent

72. Which of the following statements about the Mutual Fund Dealers Association (MFDA) is CORRECT?

a) The MFDA is the license issuing body for mutual fund salespeople

b) The MFDA is the mutual fund enforcement arm for all the provincial and territorial securities commissions

c) The MFDA regulates all activities associated with mutual fund management companies and dealers

d) The MFDA is the self-regulatory organization for the distribution side of the Canadian mutual funds industry

73. Which of the following statement is incorrect with respect to NI 81-102?

a) One of the most important pieces of the regulatory framework

b) It applies to all mutual funds and all persons selling mutual funds in all provinces and territories

c) It addresses key aspects of the creation and distribution of mutual funds securities

d) Sets out guidelines to be followed by mutual fund dealers regarding selling practices and sales representative compensation

74. If a fund as a beta of 2, what is the expected outcome for the fund?

a) It should outperform the market by 100%

b) It should match the return of the market

c) It should outperform the market by 50%

d) It should underperform the market by 5%

75. What type of fee is designed to provide an incentive for mutual fund salespeople and dealers to continue servicing their clients after sales have been made?

a) front end loads

b) back end loads

c) management expense ratio

d) trailer fees

76. When money market funds report performance, they use two yields calculations: the current yield and the effective yield. Which of the following best describes how the effective yield is calculated?

a) The yield generated over the last seven days, which is assumed will remain constant for one year, and that the returns earned weekly are re-invested in the fund

b) The most recent seven-day yield on the fund, adjusted to an annual rate

c) The ending net asset value divided by the initial net asset value all minus 1

d) None of the above

77. What types of distributions may a mutual fund make?

i) capital expenditures

ii) capital gains

iii) capital cost allowance – from real estate funds

iv) capital losses

a) i,

b) i and ii

c) ii and iii

d) i and iv

78. According to the investment objectives of the Sonar Cap, the fund manager may vary the asset mix of the portfolio in response to changing market conditions. The fund typically holds a combination of fixed income and equity securities and the fund manager is not restricted by any limitations on asset categories.

What type of fund is this?

a) index fund

b) commodity pool fund

c) balance fund

d) asset allocation fund

79. Performance assessment involves comparing a mutual fund manager's results with those of an established and reliable __________ to determine if there has been a comparatively "good" return on investment.

a) Mutual fund

b) Open-end fund

c) Benchmark indexes

d) Closed-end fund

80. What ethical responsibility do mutual fund sales representatives have?

a) To ignore sales targets and concentrate on meeting he needs of the client

b) To steer clients away from risky investments like specialty funds

c) To provide clients with the means to reduce taxes they pay on the returns they receive from mutual funds

d) To tell clients that they are officially registered to sell mutual funds

81. What is the relationship between the liquidity preferences theory and yield curves?

a) An inverted yield curve illustrates an investor's preference for long-term bonds over short-term bonds

b) An inverted yield curve illustrates an investor's preference for short-term bonds over long-term bonds

c) A normal yield curve illustrates an investor's preference for short-term bonds over long term bonds

d) A normal yield curve illustrates an investor's preference for long-term bonds over short-term bonds

82. In terms of risk, which one of the following statements is generally true?

a) Money market funds are more volatile than labour sponsored investment funds (LSIFs)

b) Real estate funds are more volatile than mortgage funds

c) Canadian equity funds are more volatile than international equity funds

d) Dividend funds are more volatile than emerging market funds

83. Marty, is 65 years of age and is a conservative investor who, in the short-term wants current income and growth of capital. Interest rates have been decreasing and Marty believes they will continue to decrease. Which of the following investments would be most suitable for Marty?

a) Bond mutual fund

b) Growth mutual fund

c) Real estate mutual fund

d) Money market fund

84. Which phase of the business cycle do the following characteristics best represent?

Three consecutive quarters of increased in GDP; New business start-ups outnumber bankruptcies; commerce activities increase; unemployment steady or falling and the stock market is strong.

a) Contraction

b) Expansion

c) Growth

d) Peak

85. Susan is looking for a conservative investment that will pay him a monthly income. Which of the following statements would be most suitable for Susan?

a) Equity-linked GIC’s

b) Principal protected notes (PPN)

c) Mortgage-backed securities (MBS)

d) Income trust units

86. What is the main difference between segregated funds and mutual funds?

a) Professional management of portfolio assets

b) Secondary market trading

c) Principal guarantees

d) Diversified portfolio holdings

87. Which of the following statements is correct in describing closed-end mutual funds?

a) Closed end mutual funds do not charge a management fee as they are unmanaged

b) The are listed on stock exchanges and are not in a state of continuous primary distribution

c) They are no longer offered as they have been replaced by open-end funds

d) They trade at a substantial premium to the net asset value due to their diversification

88. Which of the following best describes sales commissions?

a) Are the fees charged to the individual investors when they buy and sell mutual funds

b) Are the fees charged to individual investors only when they sell mutual funds

c) Are the fees payable by the fund to the fund's service providers

d) Are the fees charged to individual investors only when they buy mutual funds

89. Which of the following is false with regards to trailer fees?

a) The trailer fee is the fee paid by a client that redeems his/her fund early

b) It is a fee paid to mutual fund sales representatives to service existing clients

c) Trailer fees can range from .25% per year for money market funds to 1.00% per year for equity funds

d) The trailer fee is the annual fee based on a fixed percentage of assets

90. Choose the statement that is true with regards to a hedged portfolio.

a) It has structured its investments in such a way to effectively lock in the value

b) It is safe because of its diversification

c) It switches it investment holdings from fixed income to equity when market conditions are beneficial

d) It purchases only low-risk securities that are not affected by market fluctuations

91. What are features of a global equity mutual fund?

a) long term capital appreciation and significant potential for gains and losses due to currency fluctuations

b) long term capital appreciation and safety of principal

c) relatively stable income with little opportunity for capital appreciation

d) relatively high annual after-tax income with a moderate opportunity for capital appreciation

92. Which of the following characteristics is applicable to mutual fund corporations?

a) formed under declaration of trust

b) elected board of directors

c) flow through tax structure

d) structure of most mutual funds

93. Matt is interested in investing in mutual funds. But he is not sure which funds contain the highest risk. If Matt is considering investing in the following funds; Canadian dividend fund, Canadian equity fund, global equity funds and a mortgage fund, how would you rank these funds from lowest risk to highest?

a) Canadian dividend, mortgage, global equity, Canadian equity,

b) mortgage, Canadian dividend, Canadian equity, Global equity,

c) mortgage, global equity, Canadian equity, Canadian dividend

d) mortgage, Canadian equity, Canadian dividend, Global equity

94. Which of the following statements about KYC information is false?

a) It must include the client's marital status

b) It is required from all people that have trading authority over an account

c) It must include the client's investment time frame

d) It is required for non solicited trades

95. In collecting the KYC information of one of your clients you realize that their risk tolerance and investment objectives do not match any of the funds your firm offers. What should you do?

a) Recommend a fund that is the closest to their risk tolerance and investment objective

b) Try and convince the client that a stock or bond is better suited to them

c) Inform the client that you do not have a fund that is suited to their risk tolerance and investment objective

d) Tell the client that their investment objectives and risk tolerance are unrealistic

96. If a client is not willing to provide enough personal and financial information to determine the

appropriate investment for them, you as their advisor should?

a) Refuse the order and report the client for potential violation of security law

b) Take their mutual fund order because if you don’t they will take their business to another financial institution

c) Take the order on the condition that the client agrees not to file any complaints in future

d) Refuse taking the order and explain that you cannot take the order because this would be a violation of securities law on you as a representative

97. Which of the following best describes “benchmark gaming”?

a) A portfolio strategy that includes leveraging and short selling in attempting to bet the benchmark

b) A portfolio strategy that uses an “active management” style in managing the portfolio, which does not mimic the returns of an index

c) A portfolio strategy that uses a “passive management” style in managing the portfolio

d) A portfolio strategy that mimics the return of the benchmark index while claiming that the funds is managed actively

98. Calculate the purchase price of a mutual fund with an NAVPU of $16 and a front-end load of 4%?

a) $16.67

b) $16.64

c) $15.36

d) 15.55

99. There are operating expenses in addition to management fees that mutual funds must pay to their investment companies. These operating expenses arise from the fund’s day-to-day activities and may include?

i) Trustee, custodial and safekeeping fees

ii) Legal and audit fees

iii) Securities filing fees

iv) Interest, operating and administrative costs

a. ii, iii, iv

b. i, iii, iv

c. i, iv

d. i, ii, iii, iv

100. All of the following are forms of Accumulation Plans, except?

a) Constant dollar withdrawal plan

b) Pre-authorized investment plan

c) Voluntary savings plan

d) Contractual savings plan

101. Which of the following systematic withdrawal plans allows the payments to be paid out for the longest period of time?

a) Life withdrawal plan

b) Ratio withdrawal plan

c) Fixed-dollar or constant-dollar withdrawal plan

d) Fixed-period withdrawal plan

102. Clients may receive an unexpected tax surprise if they purchase fund units just prior to the year end. This is the case because?

a) The clients purchase includes the NAV of the units at the time of purchase and only the dividends made by the fund

b) The clients purchase includes the NAV of the units at the time of purchase and only the capital gains made by the fund

c) The clients purchase price includes the NAVof the units –which includes any year end distributions which have accumulated throughout the year and not yet paid

d) The client purchase includes the NAV of the units at the time of purchase and trading cost which flow through to the unit holders at year end

103. Sources of volatility in mutual funds include unique risk. How can unique risk be reduced within a mutual fund portfolio?

a) Diversify by investing in other securities

b) Avoid specializing in fixed income securities

c) Avoid specializing in corporate bonds

d) This type of risk cannot be reduced or eliminated

Unique risk or Specific risk – sensitivity of a security's price to new information leading to changes in demand

104. All of the following describe the Sharpe ratio, except?

a) A negative Sharpe ratio means the mutual fund had a return higher than the risk-free return

b) A mutual fund with a Sharpe ratio greater than the Sharpe ratio of the benchmark outperformed the benchmark

c) A mutual fund's Sharpe ratio that is smaller than the benchmarks signals underperformance

d) A negative Sharpe ratio means the mutual fund had a return less than the risk-free return

105. What must a mutual fund representative never do?

a) Imply that a securities commission has passed judgment on the merits of a mutual fund

b) Sell funds outside of their province of registration

c) Switch clients unnecessarily from one fund to another

d) All of the above

106. What are the actions of a mutual fund sales representative influenced by?

a) Codes of conduct implemented by the employer

b) Code of professional and ethical responsibility

c) Securities regulations and national policies

d) All of the above

107. What does "knowing your products" mean for a mutual fund sales representative?

a) Referring clients to persons qualified to give advice in the appropriate specialist area

b) Explaining the pros and cons of stocks held in an equity portfolio

c) Understanding the characteristics of the mutual funds being recommended

d) Being able to explain third party funds

108. Which requirement under current anti-money laundering legislation is false?

a) Implement a compliance regime that complies with record keeping requirements

b) Report suspicious activity on certain prescribed transactions

c) Report any deposit transactions of $5,000 CAD or more made in cash

d) Verify client identification at account opening

109. A client made the following statement, "Last year, I paid about 42% of the returns on my bond fund in taxes." As a mutual fund sales representative what should you do first?

a) Explain the tax treatment of the various types of investment income generated by your dealer's mutual funds

b) Recommend equity funds because capital gains are taxed at a lower rate

c) Devise a diversified portfolio of mutual funds that minimizes the investor's tax liability

d) Explain to the client that you cannot help him because you are not permitted to discuss taxes

110. The manager of an Equity High Value fund decided to overweight the fund's position in Japan. Over the most recent evaluation period, the fund reports a negative allocation effect. What affect would this have on the fund's performance?

a) The change in strategic allocation has no impact on the allocation effect

b) The overweighted position paid off

c) The actual return will be higher as a result of the overweight position

d) The overweighted position did not pay off

111. What should an investor do when comparing the performance of two equity mutual funds?

a) Compare the funds in relation to their returns and their stated investment objectives

b) Compare funds based on their betas – the fund with the higher beta is usually better

c) Compare the funds based solely on how they did with respect to the returns on the market as a whole

d) Avoid the fund with the higher load fees

112. Which mutual fund activity cannot be carried out by non-registered staff?

a) Referring customers to a sales representative

b) Advising customers that the financial institution has a mutual fund dealer that sells mutual funds

c) Comparing the advantages of two mutual funds

d) Receive requests to process redemptions

113. Regulation of the financial system and financial transactions legislation is a __________ matter and it is responsible for the regulating of funds.

a) Municipal

b) Federal

c) Provincial

d) None of the above

114. The trust agreement requires that, in most cases, funds must convene a meeting of security holders to consider and approve specific issues. These issues include which of the following?

i) Fund's fundamental investment objectives

ii) Change in auditor

iii) Change in fund manager

iv) Decrease in the frequency of calculating net asset value

a) i, ii, iv

b) ii, iii, iv

c) iii, iv

d) All of the above

115.What are the three main primary investment objectives for mutual funds?

i) Safety

ii) Income

iii) Tax savings

iv) Liquidity

v) Growth

a) i, ii

b) i, ii, iii

c) i, ii, v

d) i, iii, v

116. Danielle bought a mutual fund for $14.00 per unit and sold it for $12.00 per unit. During the year she received $1.00 in distributions. What was the total return for the one-year period? (ignore any fees or charges)

$14 - $12.00 = ($2.00) capital loss +1.00 income = -1.00

therefore -1.00/14.00 x 100 = (7.14%)

a) -14.29%

b) 14.29%

c) 7.14%

d) -7.14%

117. Mutual funds must report the management expense ratio or MER. How are these MERs reported?

a) The annual total of only the operating expenses divided by the average net assets, in the simplified prospectus

b) The annual total of all fees and expenses multiplied by the average net assets, in the simplified prospectus

c) The annual total of all fees and expenses divided by average net assets, in the simplified prospectus

d) The annual total of only the management fees divided by the average net assets, in the simplified prospectus

118. The federal law also established a Privacy Commission as an oversight mechanism of PIPEDA. What is the Privacy Commissioner empowered to do?

a) Attempt to resolve complaints and audit the personal information management practices of the organization

b) Receive complaints from clients against a financial institution for breach of compliance with respect to personal information

c) Conduct investigations based on complaints received from clients

d) All of the above

119.Under the new CRM II Legislation to be enforced in July 2016 two new client reports that MUST be provided to mutual fund unit holders are: the Annual Charges & Compensation Report, and the Annual

Investment Performance Report. With regards to the Annual Charges and Compensation Report, all of the follow items are required to be included in the report except:

i) Miscellaneous payments which disclose any other payments received by the dealer or Mutual Fund Dealing Representative.

ii) Trailing commissions: the total amount received by the dealer resulting from securities owned by the client.

iii) The total amounts paid by clients of each itemized type of dealer's operating and transaction charges.

iv) The Mutual Fund Dealing Representatives base salary

120.Under the new CRM II Legislation to be enforced in July 2016 two new client reports that MUST be provided to mutual fund unit holders are: the Annual Charges & Compensation Report, and the Annual Investment Performance Report. With regards to the Annual Investment Performance Report, arguably the most important facet of this report is the fact that:

a) Time weighted returns must now be provided to clients because time weighted returns do not take into account the movement of cash flows.
b) Time weighted returns must now be provided to clients because time weighted returns take into account the movements of cash flows.
c) Dollar weighted [i.e. money weighted] returns must now be provided to clients because dollar weighted returns take into account movement of cash flows.
d) Dollar weighted [i.e. money weighted] returns must now be provided to clients because dollar weighted returns do not take into account the movement of cash flows.

121. The BBK Five-Way Model identifies five types of investor personalities based on combinations of two attributes confidence and cautiousness (or the lack there of) and identifies five types of investor personalities based on the two attributes. Which of the following identifies an Adventurer?

a) This is an investor who wants to be active in the most popular sector of the market, and has much confidence in their ability to make good investment decisions – they want to be actively involved in the process

b) This is an investor who is looking for the “big kill”, or high returns in the short term and has high confidence. He/she is not too interested on focusing on their long term goals.

c) Both a) and b) describe an Adventurer

d) Neither a) nor b) describe an Adventurer

Patty Shay, a doctor, has been investing in mutual funds for many years. Due to her high earnings she is very concerned with the taxes payable on her investments. She has asked you to calculate the amount of taxes she would be required to pay on the following investments, assuming a 30% Federal Tax Rate.

122. What amount of tax would Patty be required to pay on her Scotia Bank savings account which earned her $800 in interest income?

a) She would not be required to pay any tax on the Savings Account income

b) She could deduct the interest income from her Savings Account against household expenses

c) She would be required to pay $120 in taxes

d) She would be required to pay $240 in taxes

123. The most popular method of relative performance evaluation is to compare a mutual fund’s return with the performance of a large number of other mutual funds with similar characteristics. The collection of mutual funds that form the basis for comparison is called?

a) Benchmark index

b) Mutual Fund tracker

c) Performance universe/comparison universe

d) Index

124. What are the three major responsibilities of a mutual fund representative?

i) Professional Responsibility to provide the best client service possible

ii) Corporate Responsibility to ensure that any recommendations made also are profitable for the firm selling the mutual funds

iii) Ethical Responsibility to place the client's needs before that of the representative

iv) Legal Responsibility to ensure any investment recommendation or client order is suitable for the client

a) i, ii, iii

b) ii, iii, iv

c) i, iii, iv

d) i, ii, iv

125. In a DBP the benefits are predetermined based on a formula including years of service, income level and other variables employer-sponsored plans are referred to as registered pension plans (RPPs). RPPs include two types of plans; Defined Benefit Plans and Defined Contribution Plans. Both employer and employee contributions into RPP are tax deductible. Which of the following is incorrect with respect to Defined Benefit Plans?

a) In a Defined Benefit Plan the benefits are predetermined based on a formula including; years of service, income levels and other variables

b) It is the simplest of the two types of RPPs for employers to administer

c) There are three types of defined benefit plans; flat benefit, career average and final average

d) The contributions are designed to match the predetermined plan benefits and the pension amount at retirement is known

126. The trading in capital market securities takes place essentially in one of two ways, they are?

a) On an organized stock exchange or through private tender

b) On an organized stock exchange or through auction

c) OTC or on an organized stock exchange

d) On an organized stock exchange or through private placement

Use the following information to answer questions 127 to 131.

Mike is a Financial Planner and would like to help his client minimize taxes by implementing some tax strategies. Mike has suggested that his client Melissa set up a spousal RRSP for her husband Jason. For 2009 and 2010, Melissa's earned income was $90, 000 and $80, 000 respectively.

Jason's income for 2009 and 2010 were $40,000 and $45,000 respectively. Jason's employer has a group RRSP plan and the company matches up to 9% of the employee's contributions. Both Melissa and Jason want to make their maximum RRSP contribution for 2010.

127. What is the last day that Melissa and Jason can make their RRSPs and deduct the contribution from their 2009 tax return?

a) Dec. 31, 2009

b) Dec. 31, 2010

c) Feb. 29, 2010

d) Mar 31, 2009

128. If Melissa has no RRSP carry-forward room, how much can Melissa contribute to a spousal RRSP plan for her husband?

a) 16,200

b) 18,000

c) 14,400

d) 19,800

129. If Jason leaves his employer and wants to transfer out his vested pension funds to a locked in retirement account (LIRA). Which of the following statements about Jason's LIRA is correct?

a) Jason can make contributions to his LIRA

b) Jason can withdraw from his LIRA any time, as with his RRSP

c) Jason will control the investments within his LIRA and can move his LIRA outside the current brokerage

d) Jason can convert his LIRA to a RRIF at retirement or at the latest age of 71

130. If Jason has no RRSP carry-forward room and his employer matches his contributions, how much can

Jason contribute to his group RRSP?

a) $1,800

b) $7,200

c) 0

d) $3,600

131. Which of the following would be included as earned income for the purpose of calculating RRSP contribution room?

i) Alimony or maintenance payments ordered by a court

ii) Employment income, less any union or professional dues and Net self employment income

iii) Disability payment from CPP or QPP & supplementary employment insurance benefits

iv) Royalties from a published work or invention and research grant

a) i, ii, iii

b) ii, iii, iv

c) i, ii, iv

d) i, ii, iii, iv

132. Which of the following represents the order of a "typical" business cycle?

a) Peak, Expansion, Trough, Recovery, Contraction

b) Expansion, Peak Contraction, Trough, Recovery

c) Growth, Peak, Trough, Recovery

d) Growth, Expansion, Peak, Retraction

133. Calculate the purchase price of a mutual fund which has a front-end load of 6% and a NAVP of $10.

a) $9.40

b) $10.00

c) $10.60

d) $10.64

134. Economic indicators are statistics used to analyze business conditions and current economic activity. The analysis of economic indicators can be used to predict turning points in the economy and to determine if

the economy is expanding or contracting. Housing starts, S&P/TSX, Money Supply all represent _________ indicators?

a) Lagging Indicators

b) Leading Indicators

c) Historical Indicators

d) Coincidental Indicators

135. Which of the following asset classes are included in “fixed income”?

i) T-Bills, BAs, CP

ii) Bonds

iii) Common Shares

iv) Preferred Shares

a) i, ii, iii

b) ii, iii, iv

c) iii, iv

d) i, ii, iv

Section 2 – Practice Questions with Answers

1.The mutual fund trust structure enables the fund itself to avoid taxation. Any interest, dividends or capital gains income, net of fees and expenses, is passed on directly to the **unit holders**.

a) True

b) False

2. Exchange-traded funds (ETFs) are considered tax efficient investment for which of the following reasons?

a) Lower overall trading volume

b) Use of leverage

c) Ability to short sell

d) Lower overall trading turnover

3.What is forward pricing? (right way to calculate price) backward pricing is illegal

a) It involves using the NAVPU at the close of the business day on which the order is given

b) It involves using the most recent NAVPU that is available

c) It involves predicting the future price of a unit and using this to calculate the price today

d) It can only be used when an investor is selling units, not when buying

4.Mutual fund shares or units are purchased directly from the fund and are sold back to the fund when the investor redeems his or her units. Mutual funds are said to be in a continuous state of primary distribution. What is this price referred as?

a) Offering price

b) **Net Asset Value per share**

c) Bidding price

d) Net present value

5.What are the three main primary investment objectives for mutual funds?

i) Safety

ii) Income

iii) Tax savings

iv) Liquidity

v) Growth

a. i, ii

b. i, ii, iii

c. i, ii, v

d. i, iii, v

6.All of the following are considered advantages of mutual funds, except?

a) Variety of types of funds and transferability

b) Low-Cost Professional management

c) Suitable as a Short-term investment or emergency reserve

d) Diversification

7.What are the investment objectives of an equity index fund?

a) Safety of initial capital

b) **To provide long-term growth of capital**

c) Regular income

d) Liquidity

8.The most common structure for mutual funds is?

a) closed-end trust

b) variable rate contract

c) open-end trust

d) none of the above

9.Why are mortgage funds considered less risky than bond funds?

a) Mortgage funds pay interest monthly while bond funds pay interest semi-annually

b) Mortgage terms are usually shorter than bond terms, 1 to 5 years, thus less risky than bond funds

c) Many mortgage funds hold a very large number of individual mortgages, this risk is diversified away

d) All of the above

10.What is the function of this group of the directors and trustees within mutual fund organizations?

a) To ensure that the funds representatives explain the objectives and terms of various funds in language that is understandable to new investors

b) To collect money received from the fund's buyers and from portfolio income and arrange for cash distributions as outlined by the fund

c) To provide the day-to-day supervision of the fund's investment portfolio and abide by industry regulations

d) Hold the ultimate responsibility for the activities of the fund, ensuring that the investments are in keeping with the fund's investment objectives

11.Calculate the price of a mutual fund at redemption, based on the following information; NAV of $20. back-end load of 2%?

a) $14.50 = $20 - .20 = $18.60

b) **$19.60** NAVPS = NAVPS – (NAVPS X BEL%)

c) $20.00

d) $20.40 =$10 – ($10 x.02)

12.If a mutual fund is sold on a no load basis what will be the purchase price?

a) The purchase price will be more than its NAVPS

b) The purchase price will be less than its NAVPS

c) The purchase price will be the same as its NAVPS

d) The purchase price will me at a maximum of NAVPS

13.When advertising rates of returns on mutual funds in the financial press, these rates are quoted? (17.14)

a) Before back end loads

b) After back end loads

c) Before management fees

d) After the management fees

14.What does the Mutual Fund Dealers Association (MFDA) regulate?

a) It regulates how the funds reports its earnings

b) It regulates which funds are allowed to be purchased

c) It regulates how the funds are sold

d) It regulates all areas of the mutual funds industry through the IDA

e)

15.The disclosure documents included as part of the simplified prospectus system consist all of the following.

a) A simplified prospectus

b) The annual information form

c) The annual unaudited statements or interim unaudited financial statements

d) All of the above.

16.Which of the following statement is **not true** with regards to an Annual Information Form (AIF)?

a) Annual delivery of the annual information form (AIF) is available to investors upon request

b) There is less information contained in an AIF than in a simplified prospectus

c) The prospectus must state that an AIF is available upon request

d) Investors are not typically provided with the AIF

17.The simplified prospectus consists of two sections; Part A and Part B. What is contained in Part A?

a) Specific information about the mutual fund

b) Introductory information about the mutual fund

c) Neither a nor b

d) Both a and b

18.Your client has just informed you that she is celebrating his 50th birthday. As per your learning you realize that she is entering the fourth life cycle stage. Which of the follow steps should you take as her representative?

a) Help the client to develop a financial plan based on her new investment objectives

b) Recommend that she restructure her portfolio based on her new investment objectives

c) Decide if the client's objectives have changed and, if so, suggest more suitable investment choices

d) Notify the client to come in and re-evaluate her investment objectives

19. An application for registration is filed electronically with the National Registration Database. How often must this registration be renewed?

a) Once registered no renewal required unless the individual moves his/her registration to another company or dealer
b) In most provinces every year
c) In most provinces every 5 years
d) In most provinces every 10 years

20.A dealer must carry on its business in such a way that it is made clear to clients that the business of the dealer and the Financial Institution are separate and distinct, in dealing with Mutual funds. Which of the following statements are correct in this respect?

a) Disclosure must be made that the investment is not insured by CDIC or any other government deposit insurer
b) Separate premises within a branch are not required, but adequate disclosure must be made to clients
c) Disclosure must advise clients that the dealer is a separate corporate entity from the FI
d) All of the above

21.Of the funds below, which is considered to be the most aggressive?

a) Money Market Fund
b) Balanced Fund
c) Canadian Equity Fund
d) Balanced Fund

22.How are cash and cash equivalent funds valued?

a) Book Value
b) Constant share or unit value of $10
c) NAVPS
d) Adjusted Cost Base

23. What are the two main risks of bond funds?

a) Investment risk and interest rate risk

b) Default risk and interest rate risk

c) Market risk and interest rate risk

d) Interest rate risk and quality risk

24. Balanced funds cover which of the following categories?

i) Canadian income balanced

ii) Canadian balanced

iii) Canadian tactical asset allocation

iv) Global balanced and asset allocation

e) i, ii

f) i, ii, iii

g) i, ii, iv

h) i, ii, iii, iv

25.Which of the following are the main investment objectives of a balanced fund?

a) Safety, Income

b) Safety, Income and Capital Appreciation

c) Income and Capital Appreciation

d) Income and Diversification

26.What type of income can be received on Balanced Funds?

i) Interest

ii) Dividends

iii) Net Rental Income

iv) Capital Gain

e) i, ii

f) i, ii

g) i, ii, iii

h) i, ii, iv

27.What are the primary investments for equity funds?

a) Common and preferred shares

b) Common shares

c) Preferred shares and fixed income

d) Preferred shares

28.Canadian dividend funds provide tax-advantaged income with some possibility of capital appreciation. Dividend funds are available from which shares?

a) Preferred shares

b) High-quality common shares

c) All common shares

d) Both a and b

29.Management style can be divided into two broad categories?

a) Top Down and Bottom Up

b) Value and Growth

c) Passive and Active

d) Front end and Back end

30.What is meant by "Closet Indexing"?

a) Replicates the market exactly

b) Replicates the market exactly, and sticks as closely as possible to the market weightings by industry sector, by country or region or by average market capitalization

c) Does not replicate the market

d) Does not replicate the market exactly, but sticks fairly closely to the market weightings by industry sector, by country or region or by average market capitalization

31.All of the following represent disadvantages of index funds, except?

a) A strategy to mirror the market, which represents a loss of opportunity to outperform it
b) After the payment of fees and expenses, index mutual funds or index segregated funds return somewhat less than the market benchmark in the long term
c) The management expense ratio is higher on index funds
d) The management expense ratio is lower on index funds

32.In what ways can mutual funds generate taxable income?
a) Distribution of interest income by the fund
b) Capital gains realized by the investor upon disposition
c) Distribution of dividends and capital gains by the fund
d) All of the above

33.It is possible for mutual funds to pay out capital gains at the end of the year. In such cases all of the following statements are correct, except?
a) These gains are distributed to the investors as reinvested share or as cash
b) The distribution is taxable in the hands of the new investor, even though the income was earned over the course of the full year
c) The NAVPS falls by the amount of the distribution, just after the distribution
d) Advisors should not advise clients against investing at year end, if these distributions are expected

34.Under the new CRM II regulations to be enforced in July 2016, which of the following apply to CLIENT statements:
a) The amount of commissions paid by the fund company to the mutual fund representative will be transparent and included in the client statements.
b) Mutual Fund representatives are required to purchase the cheapest mutual funds offered.
c) The new rules will make DSC Funds MORE attractive to clients.
d) **The amount of commission paid by the fund company to the mutual fund dealership will be transparent**

and included in the client statement.

35.All of the following are false with respect to measuring the Canadian Consumer Price Index, except?

a) Inflation erodes the purchasing power of money

b) CPI represents a measure of the average of the prices paid for a basket of 100 different goods and services typical consumers use

c) When calculating CPI, prices are measured against a month period

d) Inflation and deflation are the same

36.Based on the data provided above in Table 1, which of the following statements is correct?

v) The RBC Tech Fund outperformed the Investors Group Tech Fund

vi) The Investors Group Tech Fund outperformed the RBC Tech Fund

vii) Arithmetic means will always be greater than the geometric means, unless the individual sub period returns are exactly the same, in which case the arithmetic mean will be equal to the geometric mean.

viii) Geometric means will always be greater than the arithmetic means, unless the individual sub period returns are exactly the same, in which case the geometric mean will be equal to the arithmetic mean.

e) i, ii, iii and iv are all correct

f) Only i and iii are correct

g) Only ii and iv are correct

h) Only i and iv are correct

37. Calculate the monthly benefit for an employee in a “Flat Benefit Plan” using the following information; the flat rate is $10 per year of service, the number of years of service required to obtain full pension is 35 years.

a) The employee’s monthly pension would be $100 per month

b) The employee’s monthly pension would be $350 per month

c) The employee’s monthly pension would be $1,000 per month

d) This calculation cannot be made without the employee’s age

38. What are some of the two major reasons why client service is so critical?

i) Mutual funds are subject to sales regulations and disclosure requirements and this demands special

client service

ii) Due to the rapidly changing financial services environment, this requires a mutual fund representative to understand the characteristics and purpose of many products and to make recommendations that are best suited to their clients financial goals

iii) Clients will continue to purchase other products and services from the mutual fund representative

iv) Clients will refer other acquaintances to the mutual fund representative

a) i, ii

b) ii, iii

c) iii, iv

d) i, iv

39. Brent is 23 years of age and a resident of Canada. What is the maximum amount that he can contribute to a Tax Free Savings Account for 2011?

a) $5,000

b) $10,000

c) $15,000

d) $20,000

40. The “Know Your Client” rule covers off five components which include: financial goals; financial circumstances, personal circumstances, investment knowledge and ability to tolerate risk. With regards to the client’s ability to tolerate risk, which of the following statements is correct?

a) A client’s sensitivity to changes in their portfolio

b) Risk is the client’s ability to accept the increase and decrease in the portfolio with little variance

c) Risk is the client’s ability to accept the potential volatility in returns or the range of possible future outcomes on the price of a security and or fund

d) Risk is the extent to which the possible returns on a security and or portfolio will differ from the expected return

41 Which of the following represent “indirect investments” in capital?

i) investors purchase of a home and keeps money in a savings account

ii) investors purchase of stocks, bonds or mutual funds

iii) home purchase

iv) government investment in highways

a) i, iv

b) i, iii

c) ii only

d) iv only

42. What are the three important characteristics of capital?

i) Scarcity

ii) Mobility

iii) Flexibility

iv) Sensitivity

a) i, ii, iii

b) ii, iii, iv

c) i, ii, iv

d) i, iii, iv

43. Which of the following represent debt instruments or fixed income securities?

i) Commons shares

ii) Mortgages

iii) Treasury Bills

iv) Bonds/ Debentures

a) i, iii, iv

b) i only

c) ii, iii, iv

d) All of the above

44. What is meant by "Market Capitalization"?

a) Total amount of money available for the Bank of Canada to use in the Canadian capital market

b) Total amount of money available for all financial institutions to use in Canadian capital markets for

investment purposes

c) The dollar value of a company based on the market price of its issued and outstanding common share

d) Total amount of money available for both financial institution and Bank of Canada to use in the Canadian capital market

45. Which of the following statements is FALSE with respect to withdrawals made from an RESP account, when a child does not attend post-secondary education? Assume that the plan has been in existence for more than 10 years and that the child is over age 21.

a) The contributor may withdraw the income and pay tax on it, with additional surtax of 20%

b) The contributor may withdraw the income and pay no tax on it

c) The contributor may use the income to fill in unused contribution room in his/her RRSP up to a maximum of $50,000

d) If the account was a family plan, the other registered child on the account may use the entire amount in lieu of their siblings not attending post-secondary education

46. Which of the following best describes an Investment Fund?

a) Is an investment dealer that manages open ended funds

b) Is a company or trust that manages investments for its clients. The most common form is the open-end fund also known as mutual fund

c) Is an investment dealer that manages both open ended funds and individual stocks

d) Is a company that manages closed end funds also known as mutual funds

47. Which of the following make up Canada's exchanges for the trading of stocks, options and futures?

i) The TSX Venture Exchange

ii) The Bourse de Montreal

iii) The Toronto Stock Exchange (TSX)

iv) Vancouver Foreign Exchange

v) The Canadian National Stock Exchange (CNSX)

vi) ICE Futures Canada

a) i, ii, iii, iv

b) i, ii, iii, vi

c) i, ii, iv, v

d) All of the above

48. The Mutual Fund Dealers Association (MFDA) is the mutual fund industry's Self Regulator Organization and is responsible for:

a) For the distribution of individual stock investments

b) For the regulation of the mutual fund industry

c) For the distribution side or the dealer of the mutual fund industry

d) For the setting of laws in the issuing of new securities

49. The term "financial intermediaries" is used to describe any organization that facilitates the trading or movement of the financial instruments that transfer capital between suppliers and users. Which of the following are included as "financial intermediaries"?

a) Chartered Banks, trust companies, life insurance companies

b) Chartered Banks, trust companies and investment dealers

c) Chartered Banks, trust companies

d) Chartered banks, trust companies, life insurance companies. Credit unions and investment dealers

50. There are six steps to the planning process. Which of the following lists these steps in the correct order?

a) Interview the client; identify financial problems and constraints; gather data and identify goals and objectives; implement the recommendations; implement the recommendations; periodically review and revise the plan

b) Interview the client; identify financial problems and constraints; gather data and identify goals and objectives; implement the recommendations; periodically review and revise the plan implement the recommendations;

c) Gather data and identify goals and objectives; interview the client; identify financial problems and constraints; implement the recommendations; implement the recommendations; periodically review and revise the plan

d) Interview the client; gather data and identify goals and objectives; identify financial problems and constraints; implement the recommendations; periodically review and revise the plan implement the recommendations

51. In September 1998, the federal government introduced PIPEDA – the Personal Information Protection and Electronic Documents Act. The Act provides protection for personal information and grants legal status to electronic documents. What is an exception to this Act which allows sales representatives to disclose financial and other personal information without the client's consent?

a) When a corporate official request that personal information be disclosed

b) When a government representative has legal authority to obtain information or when the disclosure is required to administer a federal or provincial law

c) When another sales associate can benefit by obtaining the information to further help the client in the same branch of a financial institution

d) When your manager requests information

52. The role of the Bank of Canada includes all of the following, except?

a) To control the economy via taxation

b) To control and protect the external value of the dollar

c) To regulate credit and currency in the best interest of the economic life of the nation

d) To promote the economic and financial welfare of the population

53. Calculate the yield for a treasury bill that was purchased for $995 and has 91 days to maturity.

a) .002%

b) 2.01%

c) 5.00%

d) 3.85%

T-Bill Yield = Par Value – Purchase Price x 365 x 100

Purchase Price

= {$1,000 –$995} x {365} x {100}

995 91

= {.005} X {4.0110} X {100} = 2.01

54. Which of the following statements is characteristic of banker's acceptances?

a) The bank guarantees the principal not the interest of a corporation's debt

b) Although backed by the bank, the interest rate is dependent upon the corporation's credit rating

c) Typically the bank, not the corporation, repays the outstanding loan

d) The bank charges a stamping fee to guarantee a corporation's debt

55. When interest rates rise, what happens to the net asset value per share of a bond fund invested in long-term bonds?

a) It will decrease because investors will sell the fund and buy treasury bills at higher yields

b) It will increase because investors will be attracted to the fund based on the increase in rates

c) It will decrease because the underlying bonds in the portfolio will decline in value

d) It will remain unchanged because the mutual fund is locked into long-term bonds

56. Richard purchased an investment from his bank that has a maturity date of seven years and common shares as the underlying asset. The investment also has a performance participation cap on it. What type of investment has Richard purchased?

a) Mutual Fund

b) Principal protected note

c) Closed-end Fund

d) Segregated Fund

57. Which of the following require security holder approval?

a) A change in the fund's manager

b) A change in the basis of the calculation of a fee or expense charged to the mutual fund that could increase charges to the mutual fund

c) A change in the fund's fundamental investment objectives

d) All of the above

58. Which of the following statements about bond yield is correct?

a) An upward shift of the yield curve increases the value of the bond

b) Yield to maturity takes into account the compounding of interest

c) Yield to maturity of a bond exceeds current yield when a bond is issued at par

d) Current yield of a bond tends to decrease if the credit rating of the issuer decreases

59. Michael, a retired car salesman, is looking at investing in some preferred shares in or to supplement his income. Besides the regular dividends, he would like the ability to receive additional dividends if the company performs well. Which of the following preferred shares would meet Michael's needs?

a) Variable Rate Preferred

b) Cumulative Preferred

c) Convertible Preferred

d) Participating Preferred

60. Securities regulators recently approved the prospectus for a new mutual fund with BBC bank. What can one reasonably determine as a result of this approval?

a) The security offered under the prospectus is a sound investment

b) The regulators have endorsed the security offered under the prospectus and by extension, have endorsed the bank

c) The individuals who will sell the security offered under the prospectus are knowledgeable and are familiar with the text of the prospectus

d) The prospectus has met the requirements for full, true and plain disclosure of all relevant material facts

61. In February, ABC company share were trading at $27. Mark owns 500 shares, which he plans to sell in June to pay for the cost of his daughter's engagement party. In order to protect himself against a decline in the share price, Mark decides to buy a put option that will allow him to sell the shares at $30. The premium for the put option is $3 and the options expire in June. In June, the stock is trading at $33. Which of the

following statements is most applicable to Mark's put option?

a) The strike price for the put option is $32

b) Mark's put option s are considered in the money

c) If Mark does not exercise his options, they will expire worthless

d) The best course of action is for Mark to exercise his options

62. Your clients are concerned about the risks associated with mutual funds. With respect to risk, what should a representative tell them?

a) Risk can be avoided by selecting the appropriate funds

b) Risk is not an issue because all funds have positive returns over the long term

c) Some funds are riskier than others because of the types of assets they hold

d) A mutual fund that is adequately diversified can eliminate risk

63. Jessica was watching BNN and an analyst was recommending a stock called Burnop. According to the analyst, the stock has a tendency to be more volatile than the general market, with a beta of 1.25. The analyst predicted that the overall market will perform at 8.00% for this year. If T-bill yields are currently at 2.00%, what rate of return would Jessica require from Burnop before she would consider it as an investment?

rr = (rf + ((rf – rf) x B)) x 100

(2.00% + ((8% - 2.00%) x 1.25)) x 100

(.02 + ((.08 - .02) x 1.25)) x 100

= 9.50%

Where:

rf = the risk free return

rm = the anticipated return from the market as a whole

rr= the required rate of return

B = the beta factor for the common share

a) 8.60%

b) 10.00%

c) 9.50%

d) 10.50%

64. Which of the following represents a leading economic indicator?

a) S&P/TSX composite Index

b) GDP

c) Adjusted GDP

d) None of the above

65. NYY common shares have a par value of $35 per share and there are 10,000 shares outstanding. The shares have a current market value of $70 per share. If earnings during the last 12 months were $10 per share and dividends were $5 per share, what is the price/earnings ratio for Uptown common shares?

a) 4:1

b) 5:1

c) 6:1

d) 7:1 70/10 (current market price/earnings per share)

66. The net asset value per share (NAVPS) of a mutual fund increased from $10.50 to $17.50 in a period of weeks. If an investor in this fund realized capital gains of $7.00 per share when he sold the fund, what type of fund is this most likely to be?

a) mortgage fund

b) dividend fund

c) bond fund

d) equity growth fund

67. Which of the following funds is most likely to generate positive return? – fund b as it has + standard deviation

a) Fund A with an average return of 5% and a standard deviation of 10 – 5% +/- 10 = Range -5% to 20%

b) Fund B with an average return of 9% and a standard deviation of 7–9% + & - 7 = Range 2% to 16%

c) Fund C with an average return of 10% and a standard deviation of 20 10% +/- 20 = Range -10% to 30%

d) Fund D with an average return of 3% and a standard deviation of 5 3% +/- 5 = Range -2% to 8%

68. Which of the following ratios best presents a company's ability to meet its current liabilities?

a) gross profit ratio

b) net profit ratio

c) quick ratio

d) current ratio

69. Which of the following statements is incorrect with respect to the price-earnings ratio?

a) Price-earnings ratio compares the company's current price of its common share to the earning per common share

b) The main reason for calculating earnings per common share is to show that a share is selling at so many times its actual or anticipated annual earnings

c) It can be used to determine what price should be paid for a common share

d) It can be used to determine what dividends will be paid to preferred shareholders

70. Which of the following items would be considered an intangible asset?

a) Goodwill

b) Accounts Receivables

c) Inventory

d) Cash

71. What is the role of the mutual fund dealer?

a) portfolio advisor

b) custodian

c) distributor

d) transfer agent

72. Which of the following statements about the Mutual Fund Dealers Association (MFDA) is CORRECT?

a) The MFDA is the license issuing body for mutual fund salespeople

b) The MFDA is the mutual fund enforcement arm for all the provincial and territorial securities commissions

c) The MFDA regulates all activities associated with mutual fund management companies and dealers

d) The MFDA is the self-regulatory organization for the distribution side of the Canadian mutual funds industry

73. Which of the following statement is incorrect with respect to NI 81-102?

a) One of the most important pieces of the regulatory framework

b) It applies to all mutual funds and all persons selling mutual funds in all provinces and territories

c) It addresses key aspects of the creation and distribution of mutual funds securities

d) Sets out guidelines to be followed by mutual fund dealers regarding selling practices and sales representative compensation

74. If a fund as a beta of 2, what is the expected outcome for the fund?

a) It should outperform the market by 100%

b) It should match the return of the market

c) It should outperform the market by 50%

d) It should underperform the market by 5%

75. What type of fee is designed to provide an incentive for mutual fund salespeople and dealers to continue servicing their clients after sales have been made?

a) front end loads

b) back end loads

c) management expense ratio

d) trailer fees

76. When money market funds report performance, they use two yields calculations: the current yield and the effective yield. Which of the following best describes how the effective yield is calculated?

a) The yield generated over the last seven days, which is assumed will remain constant for one year, and that the returns earned weekly are re-invested in the fund

b) The most recent seven-day yield on the fund, adjusted to an annual rate

c) The ending net asset value divided by the initial net asset value all minus 1

d) None of the above

77. What types of distributions may a mutual fund make?

i) capital expenditures

ii) capital gains

iii) capital cost allowance – from real estate funds

iv) capital losses

a) i,

b) i and ii

c) ii and iii

d) i and iv

78. According to the investment objectives of the Sonar Cap, the fund manager may vary the asset mix of the portfolio in response to changing market conditions. The fund typically holds a combination of fixed income and equity securities and the fund manager is not restricted by any limitations on asset categories. What type of fund is this?

a) index fund

b) commodity pool fund

c) balance fund

d) asset allocation fund

79. Performance assessment involves comparing a mutual fund manager's results with those of an established and reliable ___________ to determine if there has been a comparatively "good" return on investment.

a) Mutual fund

b) Open-end fund

c) Benchmark indexes

d) Closed-end fund

80. What ethical responsibility do mutual fund sales representatives have?

a) To ignore sales targets and concentrate on meeting he needs of the client

b) To steer clients away from risky investments like specialty funds

c) To provide clients with the means to reduce taxes they pay on the returns they receive from mutual

funds

d) To tell clients that they are officially registered to sell mutual funds

81. What is the relationship between the liquidity preferences theory and yield curves?

a) An inverted yield curve illustrates an investor's preference for long-term bonds over short-term bonds

b) An inverted yield curve illustrates an investor's preference for short-term bonds over long-term bonds

c) A normal yield curve illustrates an investor's preference for short-term bonds over long term bonds

d) A normal yield curve illustrates an investor's preference for long-term bonds over short-term bonds

82. In terms of risk, which one of the following statements is generally true?

a) Money market funds are more volatile than labour sponsored investment funds (LSIFs)

b) Real estate funds are more volatile than mortgage funds

c) Canadian equity funds are more volatile than international equity funds

d) Dividend funds are more volatile than emerging market funds

83. Marty, is 65 years of age and is a conservative investor who, in the short-term wants current income and growth of capital. Interest rates have been decreasing and Marty believes they will continue to decrease. Which of the following investments would be most suitable for Marty?

a) Bond mutual fund

b) Growth mutual fund

c) Real estate mutual fund

d) Money market fund

84. Which phase of the business cycle do the following characteristics best represent?

Three consecutive quarters of increased in GDP; New business start-ups outnumber bankruptcies; commerce activities increase; unemployment steady or falling and the stock market is strong.

a) Contraction

b) Expansion

c) Growth

d) Peak

85. Susan is looking for a conservative investment that will pay him a monthly income. Which of the following statements would be most suitable for Susan?

a) Equity-linked GIC's

b) Principal protected notes (PPN)

c) Mortgage-backed securities (MBS)

d) Income trust units

86. What is the main difference between segregated funds and mutual funds?

a) Professional management of portfolio assets

b) Secondary market trading

c) Principal guarantees

d) Diversified portfolio holdings

87. Which of the following statements is correct in describing closed-end mutual funds?

a) Closed end mutual funds do not charge a management fee as they are unmanaged

b) The are listed on stock exchanges and are not in a state of continuous primary distribution

c) They are no longer offered as they have been replaced by open-end funds

d) They trade at a substantial premium to the net asset value due to their diversification

88. Which of the following best describes sales commissions?

a) Are the fees charged to the individual investors when they buy and sell mutual funds

b) Are the fees charged to individual investors only when they sell mutual funds

c) Are the fees payable by the fund to the fund's service providers

d) Are the fees charged to individual investors only when they buy mutual funds

89. Which of the following is false with regards to trailer fees?

a) The trailer fee is the fee paid by a client that redeems his/her fund early

b) It is a fee paid to mutual fund sales representatives to service existing clients

c) Trailer fees can range from .25% per year for money market funds to 1.00% per year for equity funds

d) The trailer fee is the annual fee based on a fixed percentage of assets

90. Choose the statement that is true with regards to a hedged portfolio.

a) It has structured its investments in such a way to effectively lock in the value

b) It is safe because of its diversification

c) It switches it investment holdings from fixed income to equity when market conditions are beneficial

d) It purchases only low-risk securities that are not affected by market fluctuations

91. What are features of a global equity mutual fund?

a) long term capital appreciation and significant potential for gains and losses due to currency fluctuations

b) long term capital appreciation and safety of principal

c) relatively stable income with little opportunity for capital appreciation

d) relatively high annual after-tax income with a moderate opportunity for capital appreciation

92. Which of the following characteristics is applicable to mutual fund corporations?

a) formed under declaration of trust

b) elected board of directors

c) flow through tax structure

d) structure of most mutual funds

93. Matt is interested in investing in mutual funds. But he is not sure which funds contain the highest risk. If Matt is considering investing in the following funds; Canadian dividend fund, Canadian equity fund, global equity funds and a mortgage fund, how would you rank these funds from lowest risk to highest?

a) Canadian dividend, mortgage, global equity, Canadian equity,

b) mortgage, Canadian dividend, Canadian equity, Global equity,

c) mortgage, global equity, Canadian equity, Canadian dividend

d) mortgage, Canadian equity, Canadian dividend, Global equity

94. Which of the following statements about KYC information is false?

a) It must include the client's marital status

b) It is required from all people that have trading authority over an account

c) It must include the client's investment time frame

d) It is required for non solicited trades

95. In collecting the KYC information of one of your clients you realize that their risk tolerance and investment objectives do not match any of the funds your firm offers. What should you do?

a) Recommend a fund that is the closest to their risk tolerance and investment objective

b) Try and convince the client that a stock or bond is better suited to them

c) Inform the client that you do not have a fund that is suited to their risk tolerance and investment objective

d) Tell the client that their investment objectives and risk tolerance are unrealistic

96. If a client is not willing to provide enough personal and financial information to determine the appropriate investment for them, you as their advisor should?

a) Refuse the order and report the client for potential violation of security law

b) Take their mutual fund order because if you don't they will take their business to another financial institution

c) Take the order on the condition that the client agrees not to file any complaints in future

d) Refuse taking the order and explain that you cannot take the order because this would be a violation of securities law on you as a representative

97. Which of the following best describes "benchmark gaming"?

a) A portfolio strategy that includes leveraging and short selling in attempting to bet the benchmark

b) A portfolio strategy that uses an "active management" style in managing the portfolio, which does not mimic the returns of an index

c) A portfolio strategy that uses a "passive management" style in managing the portfolio

d) A portfolio strategy that mimics the return of the benchmark index while claiming that the funds is managed actively

98. Calculate the purchase price of a mutual fund with an NAVPU of $16 and a front-end load of 4%?

F.E.L= NAVPU/ 100%-Sales charge

= $16/100%-4%

=$16/.96 = $16.67

a) **$16.67**

b) $16.64

c) $15.36

d) 15.55

99. There are operating expenses in addition to management fees that mutual funds must pay to their investment companies. These operating expenses arise from the fund's day-to-day activities and may include?

i) Trustee, custodial and safekeeping fees

ii) Legal and audit fees

iii) Securities filing fees

iv) Interest, operating and administrative costs

a) ii, iii, iv

b) i, iii, iv

c) i, iv

d) i, ii, iii, iv

100. All of the following are forms of Accumulation Plans, except?

a) Constant dollar withdrawal plan

b) Pre-authorized investment plan

c) Voluntary savings plan

d) Contractual savings plan

101. Which of the following systematic withdrawal plans allows the payments to be paid out for the longest period of time?

a) Life withdrawal plan

b) Ratio withdrawal plan

c) Fixed-dollar or constant-dollar withdrawal plan

d) Fixed-period withdrawal plan

102. Clients may receive an unexpected tax surprise if they purchase fund units just prior to the year end. This is the case because?

a) The clients purchase includes the NAV of the units at the time of purchase and only the dividends made by the fund

b) The clients purchase includes the NAV of the units at the time of purchase and only the capital gains made by the fund

c) The clients purchase price includes the NAVof the units –which includes any year end distributions which have accumulated throughout the year and not yet paid

d) The client purchase includes the NAV of the units at the time of purchase and trading cost which flow through to the unit holders at year end

103. Sources of volatility in mutual funds include unique risk. How can unique risk be reduced within a mutual fund portfolio?

a) Diversify by investing in other securities

b) Avoid specializing in fixed income securities

c) Avoid specializing in corporate bonds

d) This type of risk cannot be reduced or eliminated

Unique risk or Specific risk – sensitivity of a security's price to new information leading to changes in demand

104. All of the following describe the Sharpe ratio, except?

a) A negative Sharpe ratio means the mutual fund had a return higher than the risk-free return

b) A mutual fund with a Sharpe ratio greater than the Sharpe ratio of the benchmark outperformed the benchmark

c) A mutual fund's Sharpe ratio that is smaller than the benchmarks signals underperformance

d) A negative Sharpe ratio means the mutual fund had a return less than the risk-free return

105. What must a mutual fund representative never do?

a) Imply that a securities commission has passed judgment on the merits of a mutual fund

b) Sell funds outside of their province of registration

c) Switch clients unnecessarily from one fund to another

d) All of the above

106. What are the actions of a mutual fund sales representative influenced by?

a) Codes of conduct implemented by the employer

b) Code of professional and ethical responsibility

c) Securities regulations and national policies

d) All of the above

107. What does "knowing your products" mean for a mutual fund sales representative?

a) Referring clients to persons qualified to give advice in the appropriate specialist area

b) Explaining the pros and cons of stocks held in an equity portfolio

c) Understanding the characteristics of the mutual funds being recommended

d) Being able to explain third party funds

108. Which requirement under current anti-money laundering legislation is false?

a) Implement a compliance regime that complies with record keeping requirements

b) Report suspicious activity on certain prescribed transactions

c) Report any deposit transactions of $5,000 CAD or more made in cash

d) Verify client identification at account opening

109. A client made the following statement, "Last year, I paid about 42% of the returns on my bond fund in taxes." As a mutual fund sales representative what should you do first?

a) Explain the tax treatment of the various types of investment income generated by your dealer's mutual funds

b) Recommend equity funds because capital gains are taxed at a lower rate

c) Devise a diversified portfolio of mutual funds that minimizes the investor's tax liability

d) Explain to the client that you cannot help him because you are not permitted to discuss taxes

110. The manager of an Equity High Value fund decided to overweight the fund's position in Japan. Over the most recent evaluation period, the fund reports a negative allocation effect. What affect would this have on the fund's performance?

a) The change in strategic allocation has no impact on the allocation effect

b) The overweighted position paid off

c) The actual return will be higher as a result of the overweight position

d) The overweighted position did not pay off

111. What should an investor do when comparing the performance of two equity mutual funds?

a) Compare the funds in relation to their returns and their stated investment objectives

b) Compare funds based on their betas – the fund with the higher beta is usually better

c) Compare the funds based solely on how they did with respect to the returns on the market as a whole

d) Avoid the fund with the higher load fees

112. Which mutual fund activity cannot be carried out by non-registered staff?

a) Referring customers to a sales representative

b) Advising customers that the financial institution has a mutual fund dealer that sells mutual funds

c) Comparing the advantages of two mutual funds

d) Receive requests to process redemptions

113. Regulation of the financial system and financial transactions legislation is a ___________ matter and it is responsible for the regulating of funds.

a) Municipal

b) Federal

c) Provincial

d) None of the above

114. The trust agreement requires that, in most cases, funds must convene a meeting of security holders to consider and approve specific issues. These issues include which of the following?

i) Fund's fundamental investment objectives

ii) Change in auditor

iii) Change in fund manager

iv) Decrease in the frequency of calculating net asset value

a) i, ii, iv

b) ii, iii, iv

c) iii, iv

d) All of the above

115.What are the three main primary investment objectives for mutual funds?

i) Safety

ii) Income

iii) Tax savings

iv) Liquidity

v) Growth

a. i, ii

b. i, ii, iii

c. i, ii, v

d. i, iii, v

116. Danielle bought a mutual fund for $14.00 per unit and sold it for $12.00 per unit. During the year she received $1.00 in distributions. What was the total return for the one-year period? (ignore any fees or charges)

$14 - $12.00 = ($2.00) capital loss +1.00 income = -1.00

therefore -1.00/14.00 x 100 = (7.14%)

a) -14.29%

b) 14.29%

c) 7.14%

d) -7.14%

117. Mutual funds must report the management expense ratio or MER. How are these MERs reported?

a) The annual total of only the operating expenses divided by the average net assets, in the simplified prospectus

b) The annual total of all fees and expenses multiplied by the average net assets, in the simplified prospectus

c) The annual total of all fees and expenses divided by average net assets, in the simplified prospectus

d) The annual total of only the management fees divided by the average net assets, in the simplified prospectus

118. The federal law also established a Privacy Commission as an oversight mechanism of PIPEDA. What is the Privacy Commissioner empowered to do?

a) Attempt to resolve complaints and audit the personal information management practices of the organization

b) Receive complaints from clients against a financial institution for breach of compliance with respect to personal information

c) Conduct investigations based on complaints received from clients

d) All of the above

119.Under the new CRM II Legislation to be enforced in July 2016 two new client reports that MUST be provided to mutual fund unit holders are: the Annual Charges & Compensation Report, and the Annual Investment Performance Report. With regards to the Annual Charges and Compensation Report, all of the follow items are required to be included in the report except:

a) Miscellaneous payments which disclose any other payments received by the dealer or Mutual Fund Dealing Representative.
b) Trailing commissions: the total amount received by the dealer resulting from securities owned by the client.
c) The total amounts paid by clients of each itemized type of dealer's operating and transaction charges.
d) The Mutual Fund Dealing Representatives base salary

120.Under the new CRM II Legislation to be enforced in July 2016 two new client reports that MUST be provided to mutual fund unit holders are: the Annual Charges & Compensation Report, and the Annual

Investment Performance Report. With regards to the **Annual Investment Performance Report**, arguably the most important facet of this report is the fact that:

a) Time weighted returns must now be provided to clients because time weighted returns do not take into account the movement of cash flows.
b) Time weighted returns must now be provided to clients because time weighted returns take into account the movements of cash flows.
c) **Dollar weighted [i.e. money weighted] returns must now be provided to clients because dollar weighted returns take into account movement of cash flows.**
d) Dollar weighted [i.e. money weighted] returns must now be provided to clients because dollar weighted returns do not take into account the movement of cash flows.

121. The BBK Five-Way Model identifies five types of investor personalities based on combinations of two attributes confidence and cautiousness (or the lack there of) and identifies five types of investor personalities based on the two attributes. Which of the following identifies an Adventurer?

a) This is an investor who wants to be active in the most popular sector of the market, and has much confidence in their ability to make good investment decisions – they want to be actively involved in the process

b) This is an investor who is looking for the "big kill", or high returns in the short term and has high confidence. He/she is not too interested on focusing on their long term goals.

c) Both a) and b) describe an Adventurer

d) Neither a) nor b) describe an Adventurer

Patty Shay, a doctor, has been investing in mutual funds for many years. Due to her high earnings she is very concerned with the taxes payable on her investments. She has asked you to calculate the amount of taxes she would be required to pay on the following investments, assuming a 30% Federal Tax Rate.

122. What amount of tax would Patty be required to pay on her Scotia Bank savings account which earned her $800 in interest income?

a) She would not be required to pay any tax on the Savings Account income

b) She could deduct the interest income from her Savings Account against household expenses

c) She would be required to pay $120 in taxes

d) She would be required to pay $240 in taxes

123. The most popular method of relative performance evaluation is to compare a mutual fund's return with the performance of a large number of other mutual funds with similar characteristics. The collection of mutual funds that form the basis for comparison is called?

a) Benchmark index

b) Mutual Fund tracker

c) Performance universe/comparison universe

d) Index

124. What are the three major responsibilities of a mutual fund representative?

i) Professional Responsibility to provide the best client service possible

ii) Corporate Responsibility to ensure that any recommendations made also are profitable for the firm selling the mutual funds

iii) Ethical Responsibility to place the client's needs before that of the representative

iv) Legal Responsibility to ensure any investment recommendation or client order is suitable for the client

a) i, ii, iii

b) ii, iii, iv

c) i, iii, iv

d) i, ii, iv

125. In a DBP the benefits are predetermined based on a formula including years of service, income level and other variables employer-sponsored plans are referred to as registered pension plans (RPPs). RPPs include two types of plans; Defined Benefit Plans and Defined Contribution Plans. Both employer and employee

contributions into RPP are tax deductible. Which of the following is incorrect with respect to Defined Benefit Plans?

a) In a Defined Benefit Plan the benefits are predetermined based on a formula including; years of service, income levels and other variables

b) It is the simplest of the two types of RPPs for employers to administer

c) There are three types of defined benefit plans; flat benefit, career average and final average

d) The contributions are designed to match the predetermined plan benefits and the pension amount at retirement is known

126. The trading in capital market securities takes place essentially in one of two ways, they are?

a) On an organized stock exchange or through private tender

b) On an organized stock exchange or through auction

c) OTC or on an organized stock exchange

d) On an organized stock exchange or through private placement

Use the following information to answer questions 127 to 131.

Mike is a Financial Planner and would like to help his client minimize taxes by implementing some tax strategies. Mike has suggested that his client Melissa set up a spousal RRSP for her husband Jason. For 2009 and 2010, Melissa's earned income was $90, 000 and $80, 000 respectively.

Jason's income for 2009 and 2010 were $40,000 and $45,000 respectively. Jason's employer has a group RRSP plan and the company matches up to 9% of the employee's contributions. Both Melissa and Jason want to make their maximum RRSP contribution for 2010.

127. What is the last day that Melissa and Jason can make their RRSPs and deduct the contribution from their 2009 tax return?

a) Dec. 31, 2009

b) Dec. 31, 2010

c) Feb. 29, 2010

d) Mar 31, 2009

128. If Melissa has no RRSP carry-forward room, how much can Melissa contribute to a spousal RRSP plan for her husband?

a) 16,200 $90,000 x .18 = $16,200

b) 18,000

c) 14,400

d) 19,800

129. If Jason leaves his employer and wants to transfer out his vested pension funds to a locked in retirement account (LIRA). Which of the following statements about Jason's LIRA is correct?

a) Jason can make contributions to his LIRA

b) Jason can withdraw from his LIRA any time, as with his RRSP

c) Jason will control the investments within his LIRA and can move his LIRA outside the current brokerage

d) Jason can convert his LIRA to a RRIF at retirement or at the latest age of 71

130. If Jason has no RRSP carry-forward room and his employer matches his contributions, how much can Jason contribute to his group RRSP?

a) $1,800

b) $7,200

c) 0 2009 income is $40,000 x .18 = $7,200 but employer contributed

d) $3,600 9% which is $3,600 so Jason can contribute $3,600 himself

131. Which of the following would be included as earned income for the purpose of calculating RRSP contribution room?

i) Alimony or maintenance payments ordered by a court

ii) Employment income, less any union or professional dues and Net self employment income

iii) Disability payment from CPP or QPP & supplementary employment insurance benefits

iv) Royalties from a published work or invention and research grant

a) i, ii, iii

b) ii, iii, iv

c) i, ii, iv

d) i, ii, iii, iv

132. Which of the following represents the order of a “typical” business cycle?

a) Peak, Expansion, Trough, Recovery, Contraction

b) Expansion, Peak Contraction, Trough, Recovery

c) Growth, Peak, Trough, Recovery

d) Growth, Expansion, Peak, Retraction

133. Calculate the purchase price of a mutual fund which has a front-end load of 6% and a NAVP of $10.

a) $9.40 Purchase price = $\frac{\text{NAVPS}}{(1\text{- F.E.L\%})} = \frac{\$10}{(1\text{ -.06})} = \$10.64$

b) $10.00

c) $10.60

d) $10.64

134. Economic indicators are statistics used to analyze business conditions and current economic activity. The analysis of economic indicators can be used to predict turning points in the economy and to determine if the economy is expanding or contracting. Housing starts, S&P/TSX, Money Supply all represent __________ indicators?

a) Lagging Indicators

b) Leading Indicators

c) Historical Indicators

d) Coincidental Indicators

135. Which of the following asset classes are included in “fixed income”?

i) T-Bills, BAs, CP

ii) Bonds

iii) Common Shares

iv) Preferred Shares

a) i, ii, iii

b) ii, iii, iv

c) iii, iv

d) i, ii, iv

Flashcards

Disadvantages of Mutual funds	- perception of costs - unsuitable for short term investing - tax complications in regards to fund manager decisions
Open-end trust	Most common structure for mutual funds. The trust structure allow s a fund itself to avoid taxation.
SEDAR	Provides access to most disclosure information filed by public co mpanies and investment funds within Canada
Fund Manager	Provides day-to-day supervision of the funds investment portfolio.

Mutual Fund Trust vs. Corporation	- trust issues units, corporation issues shares - trust has a board of trustees, corporation has a board of director s - mutual fund trust enjoys tax sheltering, corporation does not
How are mutual funds regulated?	- subject to the laws of the provinces and territories.
Changes that must be approved by security holders of mutual fun ds	- basis of calculating fees and expenses - funds manager - Investment objectives
Fund facts	Gives investors key information about a mutual fund. Given to inv estor before purchase of fund. Key components: - intro - quick facts - Investment of the fund - risks - past performance - suitability - impact of income taxes on investor returns

Net ROE	Profit/Equity
Inventory Turnover	Cost of Sales / Inventory=times of turnover
EPS	Profit/# of common shares
Price-earnings ratio	Current market price of common shares/ EPS

Ask Price	Lowest price at which a seller will accept for the financial instrum ent being quoted
Annual Information Form (AIF)	A document that contains information not included in a simplified p rospectus or annual financial statements
Auction Market	Market in which securities are bought and sold by brokers acting a s agents for their clients, in contrast to a dealer market where tra des are conducted OTC. The TSX is this kind of market
Bank Rate	Minimum rate at which the bank of Canada will lend money on a s hort-term basis to the chartered banks and other members of the CPA in its role as lender

Bankers Acceptance	Commerical draft drawn by a borrower for payments on a a specif ied date. A BA is guaranteed at maturity by the borrowers bank.
Benchmark Index	An index that reflects a mutual funds investment universe , and c an be used as a standard against which performance can be mea sured
Canadian Investment Funds Standards Committee (CIFSC)	The body that oversees mutual fund classification. They track inv estment funds on a security-by-security holdings basis
Closed-end Fund	Shares of these funds are bought/sold in the open market. A fixed # of shares are issued and their value depends on market dema nd and on the value of the securities held by the fund

Composite Leading Index	A leading index published monthly by the MacDonald Laurier Instit ute which tracks performance of Canadian economy
Contraction	The phase of the economic cycle that follows the peak. During a c ontraction the economy declines.
Conventional Mortgage	When the amount of the mortgage loan does not exceed 75-80% of the appraised value of the pledged property
Current Yield	Computed by dividing the coupon or dividend payment for one ye ar by the current market price of the security. The current yield is used to compare the short-term return on different securities. For a money market mutual fund, it is the last 7 days annualized pay ment

Declaration of Trust	Legal document establishing the fund's structure, indicating it's pri ncipal investment objectives, investment policy, any restrictions o n the funds investments
Drawdown	Transfer of deposit from one account to another. Transfer from ch artered Bank to Bank of Canada
Market Timing	Act of shifting from one class of security to another (e.g. from bon ds to stocks) based on expectations of where the economy or the markets may be heading
Momentum Investing	A form of equity investing where proponents believe that strong g ains in earnings or stock price will translate into stronger gains in earnings or stock prices

Define Odds Ratio	A measure of association between an exposure and an outcome. The OR represents the odds that an outcome will occur given a pa rticular exposure, compared to the odds of the outcome occurring in the absence of that exposure
Observational Studies	Like experiments , observational Studies attempt to understand c ause-and-effect relationships. However, unlike experiments, the r esearcher is not able to control (1) how subjects are assigned to groups and/or (2) which treatments each group recieves
Multivariate	Involving two or more variable quantities
Effect Modifier	Occurs when the magnitude of the effect of the primary exposure in an outcome (i.e., the association) differs depending on the level of a third variable

Accredit Investors	Individual or investors who meet minimum requirements relating to income, net worth or investment knowledge. Also referred to a s sophisticated investors
Active Portfolio Management	Investment management style employed by managers who belie ve that financial markets present occasional inefficiencies which c an be exploited to earn excess returns
Adjusted Cost Base	Deemed cost of an asset representing the sum of the amount ori ginally paid plus any additional costs, such as brokerage fees
Alpha	Statistical measure of the value of a fund manager adds to the pe rformance of the funds managed

Beta Coefficient	A measure of the volatility , or systemic risk, of a security or a po rtfolio in comparison to the market as a whole. Beta is used in the Capital Asset Pricing Model (CAPM), a model that calculates the ex pected return of an asset based on it's beta and expected marke t returns, also known as "Beta-Coefficient"
Regression	Measure of the relation between the mean value of one variable (e.g. output) and corresponding values of other variables (e.g. time and cost)
Randomized Control Trial	A study design that randomly assigns participants into an experim ent group or a control group. As the study is conducted, the only e xpected difference between the control and experimental groups in a randomized controlled trial (RCT) is the outcome variable bein g studied
Peer review	Evaluation of scientific, academic, or professional work by others working in the same field

Difference between Inferential and Descriptive statistics	Descriptive statistics uses the data to provide descriptions of the population, either through numerical calculations or graphs or tabl es Inferential Statistics makes inferences and predictions about a po pulation based on a sample of data taken from the population in q uestion
Descriptive Statistics	A set of brief descriptive Coefficients that summarizes a given da ta set, which can either be a represention of the entire population or a sample
Inferential Statistics	We use Inferential stats to try to infer from the sample data what the population might think. Or, we use Inferential stats to make jud gements of the probability that an observed difference between g roups is a dependable one or one that might have happened by c hance in this study
Null Hypothesis	A general statement or default position that there is NO relations hip between two measured phenomena

Five basic components of KYC	1. Know clients financial goals and objectives 2. Know clients financial circumstances 3. Know the clients personal circumstances 4. Know the clients Investment knowledge 5. Know the clients ability to tolerate risk
Three types of responsibility	1. Legal: following the law 2. Ethical: place interests of client before your own 3. Professional: provide excellent customer service
Difference between mutual fund rep and FP	FP helps client set financial goals. MF rep helps select mutual funds from predefined goals.
Mutual fund characteristics	- how product is constructed - how it is likely to perform - sales charges - annual fees - conditions - type of income that the fund earns

The federal government finances expenditures using	T-bills and marketable bonds
Business may issue	Preferred and common shares
Individuals may use capital for	Mortgages
Municipal governments may issue	Instalment debentures

Financial intermediary	Market access is organized through financial intermediaries such as (1) banks or (2) insurance companies
Name broad classes of financial instruments	Debt, equity, investment funds, derivatives, etc.
Microeconomics	Analyzes market behavior of individual consumers and companies . Most important feature is the interaction of supply and demand.
Macroeconomics	Focuses on the performance of the overall economy and is essen tially the study of the sum total of economic activity, such as over all growth , inflation, and unemployment, and national economic pol icies related to these factors.

Market Equilibrium	Occurs when supply and demand meet (buying decisions of consu mers meets selling decisions of producers)
Nominal GDP	measures growth in terms of current year prices and is the value typically reported in the financial press
Real GDP	Measure of GDP adjusted for inflation. Reflects the real dollar valu e of all goods and services produced in a given year valued at pri ces that prevailed in a base year, sometimes referred to as "con stant-dollar GDP" or "constant-price GDP". Real GDP is a more acc urate measure of economic performance
Consumers	Set out to maximize their satisfaction or well-being

Firms	Maximize profits
Governments	Spend money on education, health care, employment training. Ov ersee regulatory agencies and take part in public work projects
GDP	Market value of all final goods and services produced within a cou ntry for a given time period, usually a year or period.
Expenditure Approach to GDP	Total spending on final goods and services produced in the econo my. Sum of four components: 1. Personal Consumption (C) 2. Investment (I) 3. Government Spending on goods and services (G) 4. Net exports (exports less imports) of goods and services (X-M) GDP= C+I+G+(X-M)

Business Cycle: Contraction	- level of economic activity actually begins to decline - firm faced with unwanted inventories and declining profits reduc e protection, postpone Investment, curtail hiring, and may layoff - business failures outnumber startups - falling employment erodes household income and confidence - consumers react by spending less and saving more which fuels the recession
Business Cycle: Trough	- interest rates fall, triggering a bond rally - inflation falls - consumers who postponed purchases during the recession are spurred by lower interest rates and begin to spend - stock prices rally
Business Cycle: Recovery	- firms that reduced inventory must increase to meet new deman d - they are typically still too cautious to hire a significant amount of workers, but widespread layoffs is over - firms are not yet ready to make significant new investments - unemployment remains high
Economic indicators	Stats or data series that are used to analyze business conditions and current economic activity. Help show whether the economy is expanding or contracting. - can be leading, coincident, or lagging

Leading Indicators	Tend to peak and trough before the overall economy, they are de signed to anticipate emerging trends in economic activity. - housing starts - manufacturers new orders which indicate expectations of higher consumer purchases - commodity prices - average hours worker per week - stock prices - the money supply
Coincident indicators	Change at approximately the same time and in the same directio n as the whole economy - personal income - GDP - industrial production - retail sales
Lagging Indicators	Those which change after the economy as a whole changes. Thes e indicators are important because they can confirm that a busine ss cycle pattern is occuring. - unemployment - private sector plant and equipment spending - business loans and interest on such borrowing - labour costs - inflation rate
Participation Rate	Share of working age population that is in the labour force

Stages of the life Cycle	1. Early earning years - to age 30 2. Family commitment years- 25 to 35 3. Mature earning years- 30 to 50 4. Nearing retirement- 45 to 65 5. Retired- 50 and onwards
1. Early earning years	- individual begins to work - ends when family commitments rise and impose financial deman ds - short term savings goals
2. Family commitment years	- married with children - post-secondary saving may be important - lack of liquidity
3. The mature earning years- 30 to 50	- familys level of disposable income - stage 3 may be able to save for all the goals they have identifie d - focus primarily on retirement savings - switch to equity funds to minimize taxes

Standard Finance	Characterized by rules and how investors should behave based on rational market and financial decisions
Behavioural Biases	Systematic errors in financial judgement or imperfections in the perception of economic reality 1. Cognitive 2. Emotional
Cognitive bias	Basic statistical information processing or memory errors that are common in all humans. "Blind spots". Most common cognitive bias is the "anchoring bias" which clients get anchored to the price of a stock or level of the market and hold on to that price before making Investment decisions. 1. Overconfidence: unwarranted faith in ones intuitiveness 2. Representativeness: some elements of a investment are good but the client believes the entire Investment is as well 3. Cognitive Dissonance: mental state of imbalance
Emotional Biases	Emotions that affect logical reasoning. 1. Endowment: place more value to what property they hold as to an asset they do not hold 2. Loss Aversion: stronger impulses to avoid loss than to acquire gains 3. Regret Aversion: fear of making the wrong decision and therefore not pursuing a investment decision because of that fear

Tax Deferral Plans	- reduce taxes paid during high earning (and high taxpaying) years . Tax payment is deferred until retirement. E.g. RRSPs
RRSPs	Available to individuals to defer tax and save for retirement years . Annual contributions are tax deductible. - 18% of prior years income or annual max of $25370 for 2016 income or annual max of $25370 for 2016 income or annual max of $25370 for 2016
Spousal RRSPs	He or she may contribute to the spousal plan if spouse hasn't use d the maximum room for contribution
RRIF	- Registered Retirement Income Funds: tax deferral vehicles avail able to RRSP holders who wish to continue sheltering their plans - RRSP transfers to RRIF, each year planholder must withdraw and pay tax on a fraction of the total assets

RESPs	Tax deferred savings plans intended to help pay for post seconda ry school of a beneficiary - no max for one single calendar year (lifetime max of $50000 per beneficiary) contributions are not tax deductible but anything else is
TFSAs	Income earned in a TFSA will not be taxed . Anyone 18 years of a ge can open a TFSA. $5500 limit, except for 2015=10k, etc.
Fixed-income securities	debt issued by an entity in the financial market and sold to invest ors. These securities represent the debt of the issuing entity and investors become creditors of the issuing organization.
Fixed-income Securities	Debt issued securities issued by an entity in the financial market sold to investors

Coupons	Regular payments made from the issuer to the holder of the debt
Par value	Original amount issued
Discount (below par)	When the price of the bond is below par
Premium (above par)	Trades above par value

Bond pricing	Value of bond = PV of interest payments + PV of principal
Government Bonds	Issued by the federal, provincial, and municipal governments in or der to finance public spending. Virtually no default risk.
T-Bills	Short-term government obligations. Do not pay interest but are s old at discount. Taxable but not as a capital gain. Do not have muc h interest due to short period
CSBs	Canada Savings Bonds, secure savings product issued and fully g uaranteed by the Government of Canada. Issued for 3-year terms and pay a fixed interest amount. Issued through regular workplac e withdrawals.

Canada Premium Bonds	Represent a secure investment fully guaranteed by the Governm ent of Canada. Can be purchased directly through financial instituti ons as opposed to CSBs
Corporate Bonds	Issued by corporations to finance capital investments. Credit ratin g agencies indicate the quality of corporate bonds. Call or redemp tion feature allows companies to redeem bond before maturity da te, usually with a call premium.
Debentures	Unsecured corporate bonds
Convertible Bonds	Bond can be converted to shares or equity in the company.

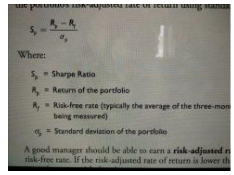
Beta	Higher beta is more risk, lower is less risk. Statistical measure that links the risk of the individual equity securities or portfolio to the market as a whole.
Fundamental Analysis	Use of economic, industry, and firm-specific data in order to estimate a security's value
Technical Analysis	Hopes to spot price (and volume) trends in stocks and in the market in general in order to benefit when those trends repeat themselves
Four Essential Statements produced by Corporations	1. Statement of financial position 2. Statement of comprehensive income 3. Statement of Changes in equity 4. Statement of Cash Flow

Statement of Financial Position	Shows a company's financial position at a specific date. Assets an d Liabilities
Statement of Comprehensive Income	Presents revenues and expenses over a specific period
Statement of Changes in Equity	Link between the statement of comprehensive income and state ment of financial position
Current vs Fixed	Current=1 year or less Fixed= more than 1 year

Liquidity Ratios	Used to judge a companies ability to meet it's short-term commit ments such as how much working capital it has to pay debts that a re due within the year 1. Working Capital= Current Assets/Current Liabilities 2. Quick Ratio= Current Assets-Inventories/ Current Liabilities
Financial Leverage (Risk Analysis Ratios)	How well the company can handle it's total debt. Focus on asset c overage. 1. Debt/Equity Ratio= Short-term + Long-term debt /Equity 2. Cash flow from operations = Cash flow/Total Debt 3. Interest Coverage= EBIT/Total interest charges
Gross Profit Margin	(Revenue-Cost of Sales/revenue) x100
Net Profit Margin	Profit/Revenue

Operating performance ratios	Operating performance ratios show how well the company is maki ng use of it's resources
Mutual Fund	Investment vehicle operated by an investment company that pool s contributions from investors and invests these proceeds into a variety of securities, including stocks, bonds, and money market i nstruments.
NAVPS or NAVPU	Net Asset value per share or Net Asset value per unit.
Advantages of Mutual funds	- low cost - professional management - diversification - variety of purchase and redemption plans - liquidity

Equity growth funds	Seek smaller firms for growth and value increase of shares
Equity index funds	Goal of replicating the movements of a market index. In Canada that particular index is often the S&P/TSX composite index
Measuring Mutual fund performance	Performance measurement involves the calculation of the return realized by a portfolio manager over a specified time interval called the evaluation period. (**Ending NAVPS – Beginning NAVPS)/ Beginning NAVPS × 100 = Gain**
Calculating the Risk-Adjusted Rate of Return	It is not enough merely to compare the returns of two portfolios to measure performance,without factoring in the risk assumed to earn those returns.

Sharpe Ratio	 $S_p = \frac{R_p - R_f}{\sigma_p}$ Where: S_p = Sharpe Ratio R_p = Return of the portfolio R_f = Risk-free rate (typically the average of the three-mon being measured) σ_p = Standard deviation of the portfolio A good manager should be able to earn a **risk-adjusted r** risk-free rate. If the risk-adjusted rate of return is lower th A tool has been developed to tak e into consideration both the risk and the return of a portfolio.**The Sharpe Ratio,** used by mutual fu nd companies and portfolio manag ers, compares the returnof the po rtfolio to the riskless rate of retur n, taking the portfolio's risk into ac count. It measuresthe portfolio's r isk-adjusted rate of return using s tandard deviation as the measure of risk
Risk-adjusted rate of return	A good manager should be able to earn a **risk-adjusted rate of return** that is greater than therisk-free rate. If the risk-adjusted r ate of return is lower than the risk-free rate, the portfolio isassum ing more risk than is necessary.
Performance Assessment	involves comparing a mutual fund manager's results with those of anestablished and reliable benchmark to determine if there has b een a comparatively "good" returnon investment. This assessme nt is based on two kinds of benchmarks: **Benchmark indexes**—the performance of a well known market i ndex. **Comparison universe**—the performance of a group of funds tha t have comparable asset classes and risk profiles.
Three characteristics of mutual fund performance	- measurement should measure superior, ordinary and inferior pe rformance - measurement should be immune to manipulation - measurement should be realistic